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This Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission, and consequently, none of the initial purchasers nor any person who controls any initial purchaser or any of their directors, officers, employees or agents, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the initial purchasers.

100,000,000 Shares

Hoteles City Express, S.A.B. de C.V.

Common Stock

We are offering 100,000,000 shares of common stock, no par value, or the "shares," in a global offering consisting of (1) an international offering of 63,782,608 shares in the United States to "qualified institutional buyers" as defined in Rule 144A under the U.S. Securities Act of 1933, as amended, or the "Securities Act," in transactions exempt from registration thereunder, and in other countries outside of Mexico and the United States to certain non-U.S. persons in reliance on Regulation S under the Securities Act, or the "international offering," and (2) a concurrent public offering of 36,217,392 shares in Mexico authorized by the *Comisión Nacional Bancaria y de Valores* (Mexican National Banking and Securities Commission, or the "CNBV") conducted through the *Bolsa Mexicana de Valores, S.A.B. de C.V.* (Mexican Stock Exchange, or the "BMV"), or the "Mexican offering," and, together with the international offering, the "global offering." This offering memorandum relates only to the international offering. The shares being offered in the global offering may be reallocated between the international offering and the Mexican offering. See "Plan of Distribution." The closing of each of the Mexican offering and the international offering are conditioned on each other.

Offer Price: Ps.23.50 per share

We have granted the initial purchasers and the Mexican underwriters options to purchase up to an additional 15,000,000 shares within 30 days from the date of this offering memorandum solely to cover overallotments, if any. See "Plan of Distribution."

Investing in the shares involves risks. See "Risk Factors" beginning on page 19.

Our shares are listed on the BMV under the symbol "HCITY" and are registered in Mexico with the *Registro Nacional de Valores* (National Securities Registry, or "RNV") maintained by the CNBV. The shares have not been and will not be listed on any national securities exchange or quoted in any automated interdealer quotation system in the United States or elsewhere outside Mexico. Registration of the shares with the RNV does not imply any certification as to the investment quality of the shares, our solvency or the accuracy or completeness of the information contained in this offering memorandum, and such registration does not ratify or validate acts or omissions, if any, undertaken in contravention of applicable law. On October 8, 2014, the last reported sale price of our shares on the BMV was Ps.24.35 per share (US$1.81 per share at an exchange rate of Ps.13.43 per U.S. dollar).

The shares have not been and will not be registered under the Securities Act or the securities laws of any jurisdiction, other than Mexico. The shares may not be offered and sold within the United States or to U.S. persons, except to "qualified institutional buyers" in reliance on the exemption from registration provided by Rule 144A under the Securities Act and to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. For further details about eligible offerees and transfer restrictions, see "Transfer Restrictions."

We expect that delivery of the shares will be made to investors on or about October 14, 2014, in book-entry form through the facilities of *S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V.*, or "Indeval," in Mexico City, Mexico.

Joint Global Coordinators and Bookrunners | **Joint Bookrunners**

Morgan Stanley **Citigroup** **BofA Merrill Lynch** **HSBC**

The date of this offering memorandum is October 8, 2014.

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NOTICE TO INVESTORS

This offering memorandum is highly confidential and has been prepared by us solely for use in connection with the proposed offering of the shares described in this offering memorandum. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or the public generally to subscribe for or otherwise acquire the shares. You are authorized to use this offering memorandum solely for the purpose of considering the purchase of our shares. Distribution of this offering memorandum to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized, and any disclosure of any of its contents, without our prior written consent, is prohibited. Each prospective investor, by accepting delivery of this offering memorandum, agrees to the foregoing and to make no photocopies of this offering memorandum or any documents referred to in this offering memorandum.

You should rely only on the information contained in this offering memorandum. Neither we nor the initial purchasers have authorized anyone to provide you any other information, and neither we nor the initial purchasers take any responsibility for any other information. You should assume that the information contained in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum. Neither the delivery of this offering memorandum nor any sale made hereunder will under any circumstances imply that the information herein is correct as of any date subsequent to the date on the front cover of this offering memorandum.

The Mexican offering is being made in the United Mexican States, or "Mexico," pursuant to a prospectus in Spanish with the same date as this offering memorandum. The Mexican prospectus, which has been filed with and reviewed by the CNBV, and this offering memorandum contain substantially similar information, in all material respects, except that the Mexican prospectus includes other information required by regulation in Mexico.

Neither the Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved these securities or passed upon or endorsed the merits of this offering or the accuracy, adequacy or completeness of this offering memorandum. Any representation to the contrary is a criminal offense.

Our shares are registered in Mexico with the RNV maintained by the CNBV. Registration of the shares with the RNV does not imply any certification as to the investment quality of the securities offered pursuant to this offering memorandum, our solvency or the accuracy or completeness of the information contained in this offering memorandum, and such registration does not ratify or validate acts or omissions, if any, undertaken in contravention of applicable law.

The distribution of this offering memorandum and the offering and sale of the shares in certain jurisdictions may be restricted by law. We and the initial purchasers require persons into whose possession this offering memorandum comes to inform themselves about and to observe any such restrictions. See "Transfer Restrictions." This document may only be used where it is legal to sell the shares. Neither we nor the initial purchasers are making an offer of the shares in any jurisdiction where the offer is not permitted.

By accepting delivery of this offering memorandum and by purchasing the shares, you will be deemed to have made certain acknowledgments, representations and agreements as set forth under "Transfer Restrictions" in this offering memorandum. The shares are subject to restrictions on transfer and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption therefrom. As a prospective purchaser of the shares, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

This offering memorandum is based on information provided by us and other sources that we believe to be reliable. Neither we nor the initial purchasers can assure you that this information is accurate or complete. This offering memorandum summarizes certain documents and other information, and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. We are not making any representation to any purchaser regarding the legality of an investment in the shares by such purchaser under any legal investment or similar laws or regulations.

In making an investment decision, prospective investors must rely on their own examination of us and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this offering memorandum as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to

make its investment decision and to determine whether it is legally permitted to purchase the shares under applicable legal, investment or similar laws or regulations.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

INFORMATION FOR INVESTORS IN CERTAIN COUNTRIES

For information for investors in certain countries, see “Transfer Restrictions” and “Plan of Distribution.”

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

We are organized under the laws of Mexico. Substantially all of our directors and executive officers and most of the experts named herein are non-residents of the United States, and substantially all of the assets of such non-resident persons and substantially all of our assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States or in any other jurisdiction outside Mexico upon such persons or to enforce against them or us in courts of any jurisdiction outside Mexico judgments predicated upon the laws of any such jurisdiction. We have appointed National Corporate Research, Ltd. as our agent to receive service of process with respect to any action brought against us in any United States federal or New York state court located in the City and County of New York arising from this offering. There is doubt as to the enforceability in Mexican courts, in original actions or in actions for enforcement of judgments obtained in courts of jurisdictions outside Mexico, of civil liabilities arising under the laws of any jurisdiction outside Mexico, including any judgment predicated solely upon U.S. federal or state securities laws. We have been advised by our special Mexican counsel that no treaty is currently in effect between the United States and Mexico that covers the reciprocal enforcement of foreign judgments. In the past, Mexican courts have enforced judgments rendered in the United States by virtue of the legal principles of reciprocity and comity, consisting of the review in Mexico of the U.S. judgment in order to ascertain whether Mexican legal principles of due process and public policy (*orden público*) have been complied with, without reviewing the merits of the subject matter of the case. See "Risk Factors—Risks Related to Mexico—It may be difficult to enforce civil liabilities against us or our directors and executive officers."

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise specified or the context otherwise requires, references in this offering memorandum to the "Company," "Hoteles City," "Hoteles City Express," the "Issuer," "we," "us" and "our" refer to Hoteles City Express, S.A.B. de C.V. and its subsidiaries.

Financial Statements

This offering memorandum includes our audited consolidated financial statements as of and for the years ended December 31, 2013 and 2012, together with the notes thereto, or the "2013/2012 Audited Financial Statements;" our audited consolidated financial statements as of December 31, 2012, 2011 and 2010 and January 1, 2010 and for the years ended December 31, 2012, 2011 and 2010, together with the notes thereto, or the "2011 Audited Financial Statements" (and, together with the 2013/2012 Audited Financial Statements, the "Audited Financial Statements"); and our unaudited condensed consolidated interim financial statements as of June 30, 2014 and for the six and three-month periods ended June 30, 2014 and 2013, together with the notes thereto, or the "Interim Financial Statements," and together with the Audited Financial Statements, the "Financial Statements," beginning on page F-1. Our 2011 Audited Financial Statements are presented for Hoteles City Express, S.A.P.I. de C.V. (*sociedad anónima promotora de inversión de capital variable*), which reflects our corporate form as a variable capital stock investment corporation during the relevant periods. On June 13, 2013, we adopted the form of a publicly listed variable capital stock corporation and changed our name to Hoteles City Express, S.A.B. de C.V. (*sociedad anónima bursátil de capital variable*).

The financial information in this offering memorandum as of and for the years ended December 31, 2013, 2012 and 2011, and as of June 30, 2014 and for the six -month periods ended June 30, 2014 and 2013, has been prepared in accordance with the International Financial Reporting Standards, or "IFRS," as issued by the International Accounting Standards Board, or "IASB."

Pursuant to the *Disposiciones de Carácter General Aplicables a las Emisoras de Valores y a Otros Participantes del Mercado de Valores* (General Provisions Applicable to Securities Issuers and Other Participants in the Securities Markets, or the "Regulations") issued by the CNBV, beginning with the year ended December 31, 2012, Mexican companies with securities listed on a Mexican securities exchange are required to prepare and present financial information in accordance with IFRS. We have adopted IFRS for the year ended December 31, 2012, with a transition date of January 1, 2010. Our audited financial statements as of and for the years ended December 31, 2011 and 2010 were previously issued under Mexican Financial Reporting Standards (*Normas de Información Financiera*), or Mexican FRS. For an explanation of the effects of the transition to IFRS from Mexican FRS, see Notes 2 and 29 to our 2011 Audited Financial Statements.

Results from Operating Segments

We assess our operating results and financial performance and assign resources along our two operating segments: hotel operation and hotel management. Each of these operating segments includes activities from which we may earn revenues and incur expenses (including revenues and expenses relating to intercompany transactions). Substantially all revenues from hotel operation are generated by room rentals and include revenues generated by those hotels we own, those we co-own with an equity interest of 50.0% or greater and our leased hotels. Revenues from hotel management are generated primarily from fees we charge our owned, co-owned, leased and managed hotels in respect of hotel reservations, distribution, management, development and supervision, as well as from our franchise activities. While under IFRS, intercompany transactions are eliminated and our Financial Statements accordingly present our consolidated results following such eliminations, our management evaluates our operating results and financial performance and assigns resources on an individual segment basis as well as a combined segment basis without giving effect to intercompany eliminations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results from Operating Segments," Note 19 to our Interim Financial Statements and Note 26 to our 2013/2012 Audited Financial Statements.

Adjusted EBITDA

Adjusted EBITDA is a measure used in our financial analysis that is not recognized under IFRS but is calculated from amounts derived from our consolidated financial statements. We calculate Adjusted EBITDA by adding depreciation and non-recurring expenses associated with the opening of new hotels to our consolidated operating

income. We believe Adjusted EBITDA is a useful measure that enables comparison of our performance with other businesses, due to its common use in the hospitality industry, and of our performance across periods on a consolidated basis, as it removes from our operating results the impact of specific expenses associated with the opening of new hotels. We expect to continue to incur these expenses upon the opening of each of our new hotels; however, once a hotel is opened and in operation, it will no longer incur such expenses. Therefore, we do not consider that these expenses reflect core hotel operating performance on a consolidated basis, for which reason we classify them as non-recurring with respect to opened hotels and thus do not include them in our measure of Adjusted EBITDA. We may calculate Adjusted EBITDA differently than other hotel operators, and it should not be construed as an alternative to (i) comprehensive income as an indicator of our operating performance or (ii) cash flow from operations as a measure of our liquidity. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Adjusted EBITDA Reconciliation."

Currency and Other Information

Unless otherwise specified, financial information included in this offering memorandum is presented in Mexican pesos. References in this offering memorandum to "Ps.," "Mexican pesos" or "pesos" are to Mexican pesos and references to "US$," "U.S. dollars" or "dollars" are to United States dollars.

This offering memorandum contains translations of certain peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These convenience translations should not be construed as representations that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the specified rate or at all. Unless otherwise indicated, the exchange rates used for purposes of convenience translations are Ps.13.00 per U.S. dollar as of June 30, 2014, which is the exchange rate of pesos to U.S. dollars as determined by Banco de México for the payment of obligations denominated in foreign currency payable in Mexico and which was published in the Federal Official Gazette (*Diario Oficial de la Federación*, or the "Official Gazette") on such date. See "Exchange Rates" for information regarding exchange rates between the Mexican peso and the U.S. dollar.

Certain numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them due to rounding.

References to spreads refer to percentage amounts representing the difference between two interest rates or transaction values, as the context requires.

In this offering memorandum, where information is presented in thousands, millions or billions of Mexican pesos or thousands, millions or billions of U.S. dollars, amounts of less than one thousand, one million, or one billion, as the case may be, have been truncated unless otherwise specified. All percentages have been rounded to the nearest percent, one-tenth of one percent or one-hundredth of one percent, as the case may be. In some cases, amounts and percentages presented in tables in this offering memorandum may not add up due to such rounding adjustments or truncating.

Unless otherwise specified, all units of area shown in this offering memorandum are expressed in terms of square meters or m^2. One square meter is equivalent to 10.76 square feet.

Industry and Market Data

Market data and other statistical information (other than with respect to our financial results and performance) used throughout this offering memorandum are based on specialty publications by private sector entities, government publications, reports by market research firms or other published independent sources, including the Mexican Ministry of Tourism (*Secretaría de Turismo*, or Sectur), the Mexican Ministry of Economy (*Secretaría de Economía*), Datatur, the National Institute for Statistics and Geography ("INEGI" by its Spanish acronym), the Panorama of Tourism in Mexico (*Panorama de la Actividad Turística en México*) published quarterly by the National Tourism Business Council (*Consejo Nacional Empresarial Turístico*) and Euromonitor International: Travel Accommodation in Mexico July 2014 ("Euromonitor").

Some data are also based on our estimates, which are derived from our review of internal surveys and analyses, as well as independent sources. Although we believe these sources are reliable, we have not independently verified the information and cannot guarantee its accuracy or completeness. In addition, these sources may use different definitions of the relevant market terms than those we present. Data regarding our industry are intended to provide general guidance

but are inherently imprecise. Though we believe these estimates were reasonably derived, you should not place undue reliance on estimates, as they are inherently uncertain.

Intellectual Property

This offering memorandum includes references to trademarks and other intellectual property rights that we hold, as well as to trademarks and brands that are the intellectual property of others. The mention of such trademarks or brands of others is merely a reference and not intended to be a use of the intellectual property of others within the meaning of any of the applicable legislation.

GLOSSARY OF TERMS AND DEFINITIONS

"2011 Audited Financial Statements" means the audited consolidated financial statements as of December 31, 2012, 2011 and 2010 and January 1, 2010 and for the years ended December 31, 2012, 2011 and 2010, together with the notes thereto.

"2013/2012 Audited Financial Statements" means the audited consolidated financial statements for the years ended December 31, 2013 and 2012, together with the notes thereto.

"Adjusted EBITDA" means net operating income plus depreciation, amortization and non-recurring expenses associated with the opening of new hotels. See "Presentation of Financial and Other Information—Adjusted EBITDA."

"Adjusted EBITDA margin" means, with respect to the Issuer, the Adjusted EBITDA of the Issuer, divided by revenue attributable to the Issuer on a consolidated basis.

"ADR" means average daily rate and, for any given period, is calculated by dividing total room revenues over such period by total room nights sold during such period.

"Audited Financial Statements" means our 2013/2012 Audited Financial Statements together with our 2011 Audited Financial Statements.

"budget segment" means limited-service hotels within the Mexican hotel industry offering ADRs generally no greater than Ps.750.

"EBITDA" means, with respect to the Issuer on a consolidated basis, a particular hotel or group of hotels, the net operating income of the Issuer or a hotel or group of hotels, plus the depreciation and amortization attributable to the Issuer on a consolidated basis or such hotel or group of hotels.

"EBITDA margin" means, with respect to the Issuer on a consolidated basis, a particular hotel or group of hotels, the EBITDA of the Issuer on a consolidated basis, such hotel or group of hotels, divided by revenue attributable to the Issuer on a consolidated basis, such hotel or group of hotels.

"economy segment" means limited-service and select-service hotels within the Mexican hotel industry offering ADRs generally no greater than Ps.1,700.

"EDGE certification" means the Excellence in Design for Greater Efficiencies certification awarded by the IFC, which recognizes efficiencies in water, energy and construction materials.

"Established Hotels" means, at any given point in time, hotels that have been in operation for at least 36 months, after which point a hotel is generally considered to have completed its ramp-up cycle while not necessarily having achieved its target occupancy rate or ADR.

"FF&E" means furniture, fixtures and equipment.

"GDP" means gross domestic product.

"IFC" means International Finance Corporation, an international organization established under its Articles of Agreement among its member countries, including Mexico, and a member of the World Bank Group.

"INEGI" means Mexico's National Institute of Statistics and Geography (*Instituto Nacional de Estadística y Geografía*) by its Spanish acronym.

"LEED certification" means Leadership in Energy and Environmental Design certification, which is an internationally recognized green building voluntary, consensus-based program that provides third-party verification of green buildings.

"limited-service" means, with respect to hotels and accommodations, lodging that offers a mix of limited services and amenities, including internet, pool, public areas with limited dining options, limited meeting rooms, fitness centers and small business centers.

"NAFTA" means the North American Free Trade Agreement.

"occupancy rate" means the rate of occupancy of hotel rooms over a given period and is calculated by dividing the total number of hotel rooms rented in such period by the total number of rooms available each day during such period.

"RevPAR" means revenue per available room and is calculated by multiplying ADR for any given period by the occupancy rate for such period. RevPAR is a commonly used performance measure in the lodging industry used to identify trend information with respect to room revenues and to evaluate hotel performance on a group or segment basis.

"ROIC" means, with respect to a particular hotel or group of hotels, such return on invested capital, which we define as EBITDA divided by the sum of all direct costs associated with the development and opening of a hotel or group of hotels (including the value of the land, building, facilities and furnishings, as well as all the costs of the project, including permits, licenses, site supervision, salaries, marketing, opening costs, financing costs, legal fees and any other cost necessary to open a hotel or group of hotels); it is usually expressed as a percentage.

"select-service" means, with respect to hotels and accommodations, lodging that offers larger rooms than, and additional services to, those offered by limited-service hotels, including more dining options, usually within a limited-menu restaurant, parking and a larger supply of meeting rooms.

"TIIE" means the interbank equilibrium interest rate (*tasa de interes interbancario de equilibrio*) published by Banco de México, by its Spanish acronym.

AVAILABLE INFORMATION

We are not subject to the reporting requirements of the U.S. Securities Exchange Act of 1934, as amended, or the "Exchange Act." For so long as any of the shares remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, we agree to furnish, upon the request of any holder of the shares, to the holder or beneficial owner or to each prospective purchaser designated by any such holder of the shares or interests therein, who is a qualified institutional buyer as defined in Rule 144A under the Securities Act, information required by Rule 144A(d)(4) under the Securities Act, unless we either maintain the exemption from reporting under Rule 12g3-2(b) of the Securities Act or furnish the information to the SEC in accordance with Section 13 or 15 of the Exchange Act.

Any such request may be made to us in writing at our principal offices, located at Juan Salvador Agraz 69, Piso 12, Col. Santa Fe, Delegación Cuajimalpa, 05348, México, D.F., or at +(52) 55 5249 8050, Attention: Corporate Finance and Investor Relations, Abelardo Loscos. We are also required periodically to furnish certain information, including quarterly and annual reports, to the CNBV and to the BMV, which will be available in Spanish for inspection on the BMV's website at www.bmv.com.mx, or on the CNBV's website at www.cnbv.gob.mx.

We also expect to have information available on our website www.hotelescity.com. Information on our website is not and should not be considered as incorporated by reference in this offering memorandum or any other offering document.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Examples of such forward-looking statements include, but are not limited to: (i) statements regarding our results of operations and financial condition; (ii) statements of plans, objectives or goals, including those related to the development, construction, acquisition or opening of new hotels, occupancy rates or ADR or our operations in general; and (iii) statements of assumptions underlying such statements. Words such as "aim," "anticipate," "believe," "could," "estimate," "expect," "forecast," "guidance," "intend," "may," "plan," "potential," "predict," "seek," "should" and "will" and similar expressions are intended to identify projections and forward-looking statements but are not the exclusive means of identifying such projections and statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution investors that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed or implied in forward-looking statements, including the following factors:

- changes in travel spending habits or travel preferences of our guests;
- our ability to successfully implement our corporate or growth strategies, including the enhancement and expansion of our hotel network, and to adapt to new hospitality trends and electronic or digital hotel distribution platforms and strategies;
- competition with other hotel operators in the markets in which we operate, as well as with third parties offering lodging services through various digital and web-based distribution channels;
- availability, or increases in prices, of construction and remodeling materials and changes in the relationship with our suppliers or in the level of quality of our contractors;
- litigation or other disputes involving us and our guests, employees or suppliers or governmental authorities or any other third party;
- general economic and political conditions, including global geopolitical events, recently promulgated structural reforms in Mexico, and the impact of security issues related to crime in Mexico and the countries in Latin America where we currently operate or intend to operate in the future;
- performance of financial markets and our ability to secure financing on competitive terms for our growth or to refinance our financial obligations as needed;
- restrictions on foreign currency convertibility and remittance outside Mexico;
- failure of our information technology systems, including data, communications and distribution systems;
- the effect of changes in accounting principles, new legislation, intervention by regulatory authorities, government directives and monetary or fiscal policy in Mexico, including fluctuations in foreign exchange rates, interest rates and inflation;
- negative impacts derived from risks associated with natural disasters, such as earthquakes, floods, hurricanes and tsunamis, among others;
- outbreak of epidemics and related changes in health regulations; and
- other risk factors discussed under "Risk Factors."

Should one or more of these factors or uncertainties materializes, or if underlying assumptions prove to be incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, forecasted

or intended. Prospective investors should read the sections of this offering memorandum entitled "Summary," "Risk Factors," "Our Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a more complete discussion of the factors that could affect our future performance and the markets in which we operate.

In light of these risks, uncertainties and assumptions, the forward-looking events described in this offering memorandum may not occur. Any forward-looking statements speak only as of the date of this offering memorandum, and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information or future events or developments. Additional factors affecting our business emerge from time to time and it is not possible for us to predict all of these factors, nor can we assess the impact of all such factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. We cannot assure you that our plans, intentions or expectations will be achieved. In addition, you should not interpret statements regarding past trends or activities as assurances that those trends or activities will continue in the future. All written, oral and electronic forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

SUMMARY

This summary highlights selected information and does not contain all the information you should consider before investing in the shares. For a complete description, investors should read this entire offering memorandum carefully, especially the risks of investing in the shares discussed under "Risk Factors" and the sections entitled "Our Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," together with our Financial Statements and related notes, included elsewhere in this offering memorandum, before investing in the shares.

Our Company

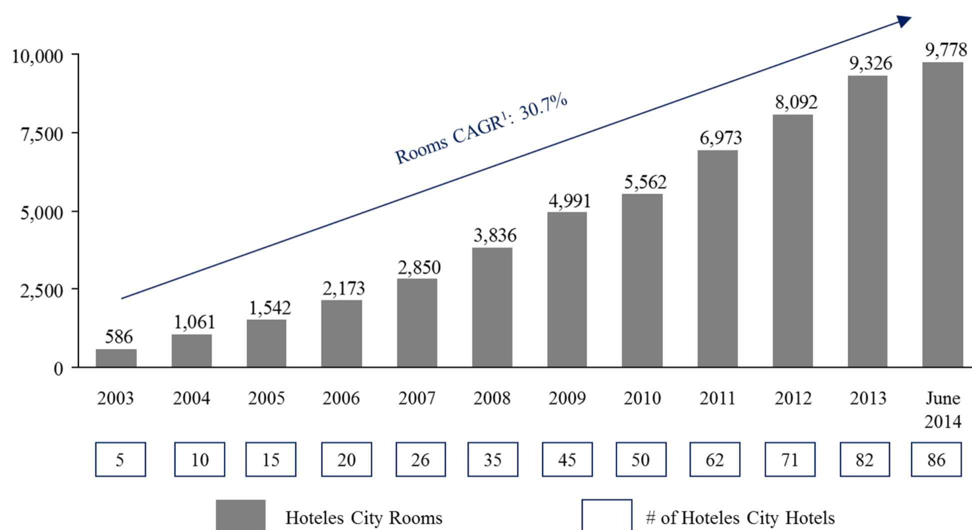
We believe we are the leading and fastest growing limited-service hotel chain in Mexico, based on number of hotels, number of rooms, geographic footprint, market share and revenues. We focus on providing quality, safe and comfortable accommodation at affordable prices across our network of limited-service hotels that primarily target business travelers in the markets where we have a presence. We operate as an integrated hospitality business platform developing, selectively acquiring, owning, managing, marketing and franchising hotels in the economy and budget segments. Although substantially all of our hotels are currently in Mexico, we have begun to expand into target markets in Latin America. We believe our focus on the value-conscious traveler is unique among lodging companies in Mexico, giving us a competitive advantage through specialization in a market that we believe is highly fragmented and underpenetrated by national and international hotel operators. Furthermore, we believe that by implementing international hospitality best practices and an efficient and flexible operating model, we are able to offer differentiated quality and value within our niche market.

Since December 2003, we have expanded, in terms of number of rooms, at a compounded annual growth rate of 30.7%, to 86 hotels under our three brands with 9,778 rooms in operation as of June 30, 2014. In Mexico, we are the third largest hotel chain, the second largest hotel operator and the largest hotel operator within the economy and budget segments, based on number of rooms and hotels. With over 69 hotels in operation, our *City express* brand has more hotels than any other hotel brand in Mexico. We have placed into operation an average of one new hotel every 6.8 weeks since our first hotel opened, which we believe makes us one of the fastest growing hotel chains in Mexico and Latin America. Our hotel network growth rate has accelerated since our initial public offering in June 2013. We have placed into operation an average of one new hotel every 4.0 weeks in the last twelve months. We estimate that we will have placed into operation an average of one new hotel every 2.9 weeks, or a total of 28 new hotels, in the period between our initial public offering in June 2013 and the end of 2014.

During the year ended December 31, 2013, on a per business segment basis we derived 79.6% of our revenues from the operation of our owned, co-owned and leased hotels and 20.4% from the management of our owned, co-owned, leased, managed and franchised hotels, as well as from our franchise and hotel development activities.

Since our initial public offering in June 2013, we have opened a total of 13 new hotels—12 hotels in Mexico and 1 hotel in Colombia—for a total of 1,415 new rooms added during this period. We opened 4 new hotels during the first half of 2014, and we estimate we will place into operation an additional 14 hotels in order to reach approximately 100 hotels by the end of the year.

The following graph illustrates our sustained growth in terms of hotels and room capacity since our first year of operation.



Source: Company Data
1. Compound Annual Growth Rate

As a result of our new-hotel development expertise and our growth trajectory, our hotel inventory has an average age of only 4.8 years, which we believe is among the newest room inventory in the Mexican lodging industry. We have built our hospitality business primarily through the construction of new hotels designed in accordance with our standards and requirements in order to maintain industry-leading margins through an efficient operating structure. We believe this business model differentiates us within the hotel industry and allows our hotels to become operationally profitable at average occupancy rates of approximately 30% at our target ADR.

The following table illustrates our hotels as of June 30, 2014 by year of opening.

	Openings per Year		Cumulative
	Number of Hotels	**% of Total**	**Number of Hotels**
2003	5	5.8%	5
2004	5	5.8%	10
2005	5	5.8%	15
2006	5	5.8%	20
2007	6	7.0%	26
2008	9	10.5%	35
2009	10	11.6%	45
2010	5	5.8%	50
2011	12	14.0%	62
2012	9	10.5%	71
2013	11	12.8%	82
2014[1]	4	4.7%	86
Total	86	100.0%	86

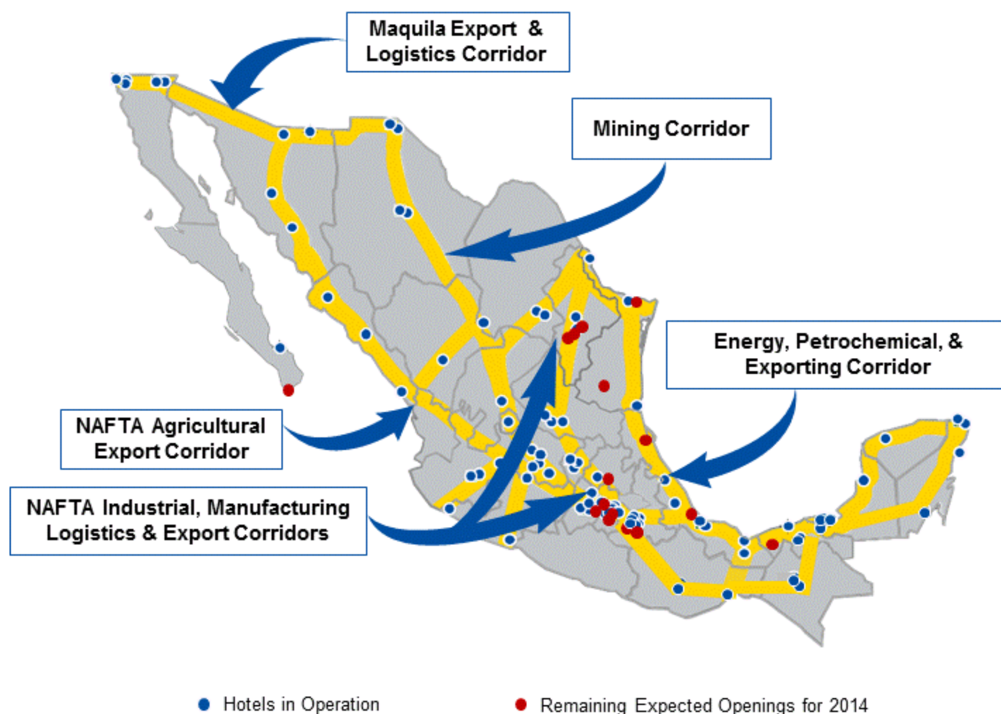
[1] From January 1 to June 30, 2014.

Approximately 37% of our hotels were opened in the 36-month period prior to June 30, 2014 and thus have not completed their ramp-up cycle or achieved target occupancy rates and ADR. We expect to derive increased RevPAR and Adjusted EBITDA margins as these properties transition to Established Hotels and stabilize into mature properties once their target occupancy rates and ADR are reached.

Of our 86 hotels in operation as of June 30, 2014, 84 are located in Mexico, 1 is located in Costa Rica and 1 in Colombia. We are geographically diversified across Mexico with a presence in 28 of Mexico's 32 states, and expect to increase our presence to 29 states by the end of 2014. Our 9,778 rooms in operation as of June 30, 2014 are diversified across our three well-defined hotel brands that serve travelers across the budget and economy segments, with a particular focus on business-oriented travelers. Our flagship brand, *City express*, caters to managers and other business travelers in the economy segment, offering ADRs ranging from approximately Ps.600 to Ps.1,200. Our extended-stay brand, *City Suites*, offers fully equipped apartment-like rooms at a slightly higher ADR (Ps.750 to Ps.1,700) than our *City express* brand, while still offering accommodations typical of the economy segment. *City junior*, our most affordable accommodation option, offers our same hotel services at highly competitive prices with slightly smaller room sizes, and targets non-management employees and other domestic travelers in the budget segment, offering ADRs ranging from Ps.500 to Ps.750. We offer a selection of amenities that are essential for the business traveler, including wireless internet, complimentary breakfast, meeting rooms and business centers, along with fitness centers in our *City express* and *City Suites* hotels.

We believe our accommodations serve travelers in segments in which there is significant demand and strong prospects for growth. Our target customers—the value-conscious domestic travelers—account for approximately 90% of all tourism spending in Mexico, based on information sourced from the Mexican Ministry of Tourism and INEGI. Our hotels are specifically designed to meet the needs of these travelers, which we believe have largely been underserved by existing national and international hotel chains, as well as independent non-branded hotels, in Mexico and elsewhere in Latin America. We also believe we serve travelers in segments in which there is significant growth potential, as much of the existing inventory in this market is obsolete and we offer the option of updated, quality rooms to our target markets. We expect to continue to benefit from the macroeconomic stability and expected continued growth of the economy in Mexico and other target markets in Latin America. In Mexico, we believe that continued public and private sector investment in infrastructure, increased business activity from the most competitive business sectors, including the manufacturing, export and energy sectors, and consolidation of a highly fragmented hospitality industry, among other factors, create a highly favorable environment for the growth and development of our business. Domestic business and leisure travel is driven to a large degree by economic growth. The Mexican government has recently enacted structural reforms targeting the labor, education, energy and telecommunications sectors, among others, that are expected to result in greater economic development. We believe we are well-positioned to benefit from future increases in Mexican GDP, and consequently in travel, by virtue of our high quality standards, broad geographic footprint and strong brand recognition.

The map below illustrates our geographic coverage and exposure to a variety of economic sectors as of June 30, 2014, with properties strategically located in urban and suburban locations along the principal business, logistics, commercial and industrial routes in Mexico, as well as our anticipated openings for 2014 within Mexico.



We believe that locating our properties along the NAFTA manufacturing corridor, the NAFTA agricultural corridor, the U.S.-Mexico border, the mining, industrial, exporting, logistics and petrochemical and energy-related corridors, the aerospace and automotive industrial hubs in central Mexico and the consumer-driven commercial sector of the most important cities in Mexico allows us to benefit from an increase in economic activity and consumer spending in Mexico.

We attribute our success to both our hotel development capabilities and our hotel operating, management and commercial platforms, which are each based on efficiency, convenience and quality. Central to our business model is a disciplined, systematic and streamlined process for identifying potential markets and locations for new hotel openings and for managing the development of our hotels. By outsourcing our construction and engineering-related work to high-quality contractors and service providers and awarding contracts through transparent bidding processes, we mitigate construction risk, create contractor competition and lower costs per room. We believe our in-house project management capabilities are critical to our business and have allowed us to achieve predictable and on-budget costs per room across Mexico and most recently in Costa Rica and Colombia. This project management expertise and the resulting cost per room has allowed us to meet or exceed target rates of return on new investment opportunities. Each potential new hotel development undergoes a detailed analysis across macroeconomic drivers, industry and business sectors and market research that includes demographic and site-specific studies by our in-house market research team and subsequent approval by our investment committee to ensure that developments meet project-specific investment return and capital allocation criteria. We have conformed our room sizes, layouts and FF&E within each brand in order to facilitate efficient and scalable construction and operations of our properties. We also control our hotel management, distribution and commercial platform through our proprietary IT system at our headquarters in Mexico City, enabling us to centrally monitor our hotels in order to capitalize on opportunities and to adjust rates and distribution channels to optimize each hotel's performance while keeping our operating costs low.

We strive to make our operations scalable and as productive as possible, from our hotel staffing to the manner in which we source breakfast items, resulting in a cost-efficient operating structure that we believe has contributed to our strong profitability as measured by an EBITDA margin of approximately 37.0%, as well as an average ROIC above 12.0%, each for our owned and co-owned Established Hotels as of December 31, 2013. As our owned and co-owned

new-construction hotels mature and reach their target occupancy rates and ADRs, we expect their average ROIC to improve as a result of increased RevPAR and EBITDA margin in respect of such properties.

Based on our success over the last twelve years, we intend to expand our presence throughout Mexico and into specific markets within Latin America, such as Colombia and Chile, with our principal focus being growth in the Mexican market. During the next 24 months, we intend to continue to implement a growth strategy that includes development of approximately 37 new-construction hotels, opportunistic and strategic hotel acquisitions, including in Mexico City and other major cities in Mexico, and management of hotels belonging to third parties. We expect that this growth pipeline will add over 4,191 rooms to our inventory, representing an approximate 43% increase over our current number of rooms.

Since opening our first hotel in May 2003 through December 31, 2013, our available room nights and occupied room nights have increased at a compound annual growth rate of 45.4% and 55.3% to 3.0 million and 1.7 million, respectively. For the six months ended June 30, 2014, occupancy, ADR and RevPAR reached 56.5%, Ps.730 and Ps.412, respectively, and for Established Hotels 60.2%, Ps.712 and Ps.429, respectively. During the six months ended June 30, 2014, we generated combined business segment revenues of Ps.777.1 million, a 29.0% increase, and consolidated revenues of Ps.649.4 million, a 27.5% increase, in each case as compared to the corresponding period in 2013. Our Adjusted EBITDA in the first six months of 2014 was Ps.210.9 million, a 34.7% increase from the corresponding 2013 six month period.

Our Competitive Strengths

Uniquely Structured as an Integrated Hospitality Business Platform that Develops, Owns, Manages and Franchises Limited-Service Hotels

Our business model involves fully integrating hotel development, ownership, management, marketing, franchising and distribution, which gives us control and flexibility with respect to our growth profile and our management and commercial strategy. As a result of this flexibility, we have been able to grow our number of hotels and rooms by 64.0% and 67.6%, respectively, from December 31, 2010 to December 31, 2013, compared to the Mexican lodging industry hotel and room growth rates of 7.8% and 5.3%, respectively, reported by Mexico's Ministry of Tourism for the same period.

During the year ended December 31, 2013, we derived on a per business segment basis 79.6% of our revenues from our hotel operation business segment and 20.4% from the management and distribution of hotels. As both the owner and operator, we can effectively implement best business practices and manage hotel profitability, quality, room distribution and critical aspects of our marketing programs, reservations and training of employees. Full integration allows us to diversify our sources of revenue among the operation of owned, co-owned and leased hotels, income generated from development activities, fees earned through our management and sales platform and fees from hotels owned by third-parties. As a fully integrated hospitality company, we have the flexibility to deploy our own resources on projects that maximize our ROIC, while pursuing other growth opportunities through co-investment with third-parties and management contracts. As of June 30, 2014, we owned 31 hotels (3,743 rooms), co-owned 24 hotels (2,821 rooms), leased 11 hotels (1,129 rooms), managed 16 hotels (1,692 rooms) and franchised 4 hotels (393 rooms).

Highly Profitable and Scalable Business Model Supported by an Efficient Operating Structure and Proven Development Expertise

Over the past twelve years, our cost-efficient and flexible operating structure and our systematic, disciplined and streamlined development platform has enabled us to open an average of one hotel every 6.8 weeks and achieve an average ROIC above 12.0% for our owned and co-owned Established Hotels in 2013. Our hotels are mostly new developments, which we believe cost less than acquiring, re-modeling or re-positioning outdated properties and support the long-term value of our investments. Our average development cost per room for hotels developed under the *City express* brand, excluding those developed in Mexico City, Costa Rica and Colombia, was approximately Ps.598,000 from 2011 to 2013.

We consistently seek to improve the efficiency of our operations. On average, our properties are operated with 21 employees per 100 installed rooms. We have a centralized monitoring ADR control system for all our hotel operations, enabling us to respond in real-time to the market and adjust our rates, distribution channels and marketing accordingly.

We maintain a central repository of room inventory, which ensures that we can accurately and quickly manage reservations via a variety of proprietary and third-party channels. We also seek to enhance our operational efficiency through environmentally-friendly initiatives. As a result, our six EDGE-certified hotels have experienced, on average, an estimated 30.0% and 40.0% reduction in energy and water use, respectively, compared to similarly positioned properties as of the time of the certification.

Our hotels are constructed by third-party contractors, whom we select through competitive and transparent bidding processes based on projected cost, experience, track record and technical qualifications, under the supervision and on-site project management of our own development team, which has significant expertise having developed over 19,000 hotel rooms in the aggregate throughout their careers. This experience helps differentiate us from our local competition. During the construction of our hotels, contractors follow highly detailed and standardized designs, which enhance our ability to meet budget and timing expectations. On average, the process from ground-breaking to opening for one of our hotels lasts between six and twelve months. Standardized room size, layout and FF&E further contribute to our efficiency and quality control. These streamlined and systematic development processes, combined with the quantity and continuous flow of our construction projects, allow us to benefit from economies of scale and preferential contracting and pricing for inputs.

As one of the largest hotel operators in Mexico, we have considerable scale relative to our competitors, particularly when compared to independent hotel owners/managers, and we are therefore able to achieve more operating synergies. Our size and operating scale allows us to operate our hotel chain with a standardized management platform and set of business guidelines, work with large corporate clients that require safe and high-quality accommodation for their personnel across different locations, negotiate better terms with suppliers in the hospitality industry and benefit from marketing strategies and programs that allow us to reach a larger guest base. As a result, we have achieved historical compounded annual Adjusted EBITDA growth of 27.1% from 2010 to 2013. We believe that our professional track record, reputation and position within the hospitality industry in Mexico has provided us with a broad network of strong relationships with third parties who possess development and financing expertise across Mexico, enhancing our growth opportunities and our access to land sites across the country.

National Presence and Diversified Revenue Stream Through our Three Well-Defined Hotel Brands Located Throughout Mexico

As of June 30, 2014, we had a presence in 28 of Mexico's 32 states, which, according to INEGI, together cover over 93% of Mexico's population and over 96% of its GDP. We have focused on providing high-quality services in areas close to major business and commercial centers to meet the needs of primarily mid-level business travelers and value-conscious travelers in general.

Our hotels are situated in the main areas of business-related demand, including:

- the NAFTA industrial, manufacturing, commercial and export corridor, which has benefited from the increase in manufacturing activity due to the global economic recovery, increasingly competitive energy and labor costs and recent investments by the automotive and aeronautical industries;
- the agricultural export corridor, which has been aided by renewed government spending in transportation infrastructure and the sector generally;
- the U.S.-Mexico border, which has benefited from the economic recovery in the United States, Mexico's principal trade partner;
- the mining corridor, which is expected to benefit from the Mexican government's recently announced structural reforms of the mining sector; and
- the petrochemical, industrial, logistics, energy-related and export corridor, which is expected to benefit from the recently-enacted energy reforms intended to encourage private-sector participation in the petrochemical and oil and natural gas industries.

Our dedicated location-scouting and market research teams undertake several levels of analysis to select prime sites with maximum revenue potential within these areas. By the end of 2014, we expect to be present in 29 states.

As Mexico's travel industry continues to evolve, we expect segment-specific demand within the economy and budget hotel segments to increase, driven by consumers looking for accommodations with international quality and safety standards tailored to their needs and price range. In anticipation of this increase in consumer selectivity, we have established a portfolio of three well-defined hotel brands, with a range of ADRs from Ps.500 to Ps.1,700, which positions us to offer affordable accommodations to the substantial majority of the Mexican population.

- Our flagship brand, *City express*, caters to professionals, mid-level managers, owners of small- and medium-sized enterprises and other business travelers in the economy segment, and generally offers ADRs between Ps.600 and Ps.1,200.

- Our extended-stay brand, *City Suites*, offers fully equipped apartment-like rooms to business travelers for higher ADRs of Ps.750 to Ps.1,700 while still offering accommodation within the economy segment.

- *City junior* targets non-managerial employees and other travelers in the budget segment, and generally offers ADRs between Ps.500 and Ps.750.

We believe our distinct product offerings have not only enabled us to increase our exposure to key high-growth lodging segments with different demand dynamics and to diversify our revenue mix and exposure across different economic segments, but also increase our resiliency to possible economic downturns. In addition, we believe that our commercial and marketing expertise has allowed us to establish a portfolio of recognized hotel brands tailored to our customers' needs. We continuously conduct in-house market research to assess the effectiveness of our brand architecture and to adapt it as necessary to respond to changes in the hospitality segments in which we operate.

Experienced Management Team with Extensive Track Record Developing and Operating Hotels

The majority of our senior management team has been with us since the Company was founded; together, they have overseen our growth since 2002 and have delivered a compounded annual growth rate in number of hotels of 31.1% since 2003, our first full year of operation. Our senior management team has been responsible for the structuring, financing, development and operation of our 86 hotels in operation as of June 30, 2014, with a collective 9,778 rooms, which represent more hotel and room openings since 2003 than any other hotel chain in Mexico. Our top six executives have over 100 years of combined experience in the hospitality industry, including tenure at other leading hospitality groups. Our co-founder and CEO, Luis Eduardo Barrios Sánchez, has extensive industry experience across Latin America, and, through his prior senior management roles within the industry, has led expansions into Brazil, Chile and Argentina and acquisition and capital markets transactions. We have a highly professional and experienced management team across all key functional areas of the hospitality business, including lodging-specific real estate structuring, investing and financing, hotel project management and development, hospitality operations and marketing.

Recognized National Brand Associated with Superior Value

We currently operate more limited-service hotels in the economy and budget segments in Mexico than any other international or domestic hotel chain and believe we are widely recognized as offering quality, safe and comfortable accommodation while maintaining affordable prices. Through our three well-defined brands, we believe that we have created a reliable product that caters to the largest combined segments of business travelers across Mexico. We believe our strong price-value proposition has helped us achieve greater market penetration than the brands we compete with in Mexico.

Through targeted marketing and public relations campaigns, effective use of social media and other digital platforms and commercial partnerships with leading airlines, rental car companies and other businesses, we have become a widely recognized brand associated with superior value and consistent service for travelers within the economy and budget segments. Our hotels rank highly in national brand recognition surveys, and our *Hoteles City express* brand has been accorded the status of a "well-known brand" in Mexico by the *Instituto Mexicano de la Propiedad Industrial* ("IMPI"), the Mexican intellectual property authority. Additionally, with our *City express* brand, we have more hotels under one brand in Mexico than any other hotel chain. As of June 30, 2014, we had over 7,500 corporate accounts and locally

managed agreements. Room rentals associated with corporate accounts and local agreements represented approximately 60% of our room nights occupied in the first six months of 2014. We also have several corporate alliances, primarily with airlines such as Aeroméxico, Interjet, Volaris and Avianca-Taca, whose customers can book room nights at our hotels simultaneously with the purchase of an airline ticket. We intend to continue to pursue these targeted marketing programs to increase our visibility among key populations.

Our fast-growing *City premios* guest loyalty program has over 370,000 subscribers. Points earned through *City premios* can be earned and used for goods and services across a wide variety of retail stores such as Walmart, airlines such as Aeroméxico, restaurants, entertainment venues and rental car agencies. During the first six months of 2014, reservations at our hotels made by *City premios* members totaled approximately 20% of all reservations. We believe that the strength of our loyalty program, in addition to the nearly 87% of our reservations that were made through our proprietary reservation systems or through other direct channels or relationships with our hotels in 2013, demonstrates a strong consumer identification with our brand.

Differentiated Product Compared to the Majority of Existing Inventory in our Target Markets

We believe that we are uniquely positioned as the only limited-service hotel chain in Mexico focused primarily on the value-conscious traveler, which has historically been served by a highly fragmented hotel industry comprised of smaller, independent, non-branded hotels lacking standardization and uniform safety and quality standards. These independent hotels comprise approximately 79% of the hotels available in Mexico as of 2013, according to Euromonitor.

We believe that we offer a lodging experience that is significantly distinct from national and international hotel chains in our target segments and independently owned hotels across Mexico. Within our target segments, accommodations largely consist of outdated inventory inconsistently available from independent, non-branded hotels. In contrast to much of the existing inventory, our hotels are largely new constructions with an average age of only 4.8 years.

As opposed to most independent, non-chained hotels, we offer rooms with attributes and features in line with international hospitality standards at lower prices than most chain hotels in Mexico. We offer a range of amenities that are essential for the business traveler, including wireless internet, complimentary breakfast, meeting rooms and business centers, along with fitness centers in our *City express* and *City Suites* hotels, which are not common to most independent limited-service hotels in Mexico. Our hotels are carefully designed to merge efficient functionality with modern and clean aesthetics, which we believe further differentiates our hotels from the substantial majority of inventory in our target markets.

In contrast to many of the existing hotels in our segments, we have made state-of-the-art technology a primary focus of our operations and guest experience. Our IT infrastructure connects all our hotels to our centralized monitoring and reservations platforms, so that we can optimize hotel performance, manage chain-wide room inventory allocation and ensure our guests can make reliable reservations throughout our hotel network. We also focus on technologically advanced customer interaction with our brand, by, for example, creating proprietary mobile device and web-based applications so that our guests can access our reservation services remotely. Our proprietary mobile device application has been well received by guests and early adopters of such technology in Mexico, and approximately 13% of our reservations in 2013 were made via our proprietary website or mobile device applications.

In addition to providing consistent quality and accessibility across our hotel network, we build all of our hotels to be compliant with national and international fire, safety and environmental standards. Our hotels are also specifically designed to meet environmental efficiency standards. We have obtained LEED certifications for six of our properties, and we are in the process of obtaining certification for an additional seven properties; we have also obtained EDGE certifications for six of our properties. We are also in the process of having our hotels certified by the Biosphere Responsible Tourism program, a joint certification program of UNESCO and the Institute for Responsible Tourism. As of the date of this offering memorandum, 27 of our hotels have been certified, and we expect to have all of our hotels certified by the end of 2015.

Our Shareholder Base and Corporate Governance Standards Distinguish Us From Other Participants in our Target Markets

We benefit from the support and involvement of a large institutional shareholder base, which includes investors such as Morgan Stanley Real Estate Special Situations Fund III (MSSSFIII) and the IFC (a member of the World Bank Group). Since our inception, our manner of conducting business, due to our corporate ethos and in part due to our contractual obligations to our international shareholder base, demonstrates our commitment to increased diligence and accountability regarding our business practices in general and also with respect to environmental, social impact, safety and corporate governance standards.

Following our initial public offering, we have remained committed to maintaining high corporate governance standards, as demonstrated by the composition of our Board of Directors, in which eight out of nine members are independent under Mexican Law. Our shareholder base is expected to be further diversified after this offering of our shares, which will result in no person holding more than 10% of our shares.

Our High Impact Sustainability and Social Responsibility Policy Helps Us Create Value in the Long Term

Since opening our first hotel, we have endeavored to apply environmental sustainability and social responsibility principles in all aspects of our business, from designing and constructing our hotels to developing and operating them over time. Our commitment to international environmental standards is evidenced by the numerous LEED, EDGE and UNESCO Biosphere Responsible Tourism certifications that our hotels have received. We also support educational and entrepreneurship initiatives in collaboration with leading organizations and academic institutions focused on social responsibility activities and educational programs, which we believe contribute to the social and economic well-being of our stakeholders and the communities in which our hotels are located.

Our Business Strategy

Increase Market Leadership in our Segments Through the Continued Expansion of our Hotel Network in Mexico

Our primary business growth strategy is to continue leveraging our integrated business platform and to focus on ownership of new-construction hotels throughout Mexico. We also plan on engaging in strategic and opportunistic acquisitions of existing properties in markets where there is generally a scarcity of sites available for development of new-construction hotels. We expect to expand into new geographic territories to both reach a larger percentage of the Mexican population and increase our penetration within the industrial and commercial hubs in Mexico. In addition, we anticipate augmenting brand coverage in areas in which at least one but not all of our brands are already present, particularly in cities that we believe have significant market demand for such additional coverage. We expect our land investments to date and projects under contract will support our development pipeline for up to 24 months. The diversity of our land investments means that we can choose to develop properties tactically to maximize our return on investment in doing so. Additionally, a substantial portion of this pipeline has already been funded by our existing equity and internal cash flow or other financing sources; thus, we intend to use proceeds from this global offering to accelerate our existing growth profile and take advantage of opportunities in Mexico and specific markets in Latin America. We intend to capitalize on our existing operational platform to grow our development capabilities up to approximately 20 new hotels per 12-month cycle in the coming years, in addition to strategic hotel acquisitions. We also plan to continue rolling renovations of our existing properties to ensure that our guests can continue to rely on our hotels for superior quality in our target segments. Consistent with past practice, we expect to continue our primary strategy of developing new units to replace obsolete room inventory, belonging mainly to independent, non-chain hotels, throughout our target markets. We plan on capitalizing on our existing business platform and brand recognition to further expand our hotel network and solidify our presence across Mexico.

Our business strategy remains focused on growing and strengthening our brands, hotel distribution capabilities and commercial platform through continued investments in IT infrastructure and business development. We plan to allocate capital generated from our existing operations towards marketing and sales efforts intended to strengthen our position in the hospitality segments in which we operate. We also plan to allocate capital to enhance our IT infrastructure in order to expand our room distribution capabilities and digital sales efforts, and to continue to develop the systems we use to monitor and manage our hotels in an effort to make our operations more efficient and productive.

Capitalize on Macroeconomic Opportunities in Mexico and Attractive Target Market Dynamics

We believe that our integrated hospitality platform, our efficient operating model and our focus on the economy and budget limited-service segments position us well to benefit from the structural drivers of the Mexican economy and the ongoing growth of Mexico's middle-class population. According to INEGI, Mexico is the second-largest economy in Latin America and is expected to grow at an accelerated rate in the upcoming years. The Mexican economy experienced significant growth during 2011 and 2012, with real GDP growth of 4.0% in each year. Mexico's GDP growth rate decreased to a modest 1.1% in 2013 and 1.8% during the first three months of 2014. However, the Banco de México estimates that GDP growth will rebound to an annualized rate between 2.0% and 2.8% during the second half of 2014. The Mexican manufacturing sector, in particular, has become highly competitive globally, attracting significant investment from domestic and multinational companies. Mexico's energy and petrochemical sector has also seen an important increase in investment and infrastructure development, and its prospects for the future are expected to be positive following the recent enactment of structural reforms. Prudent macroeconomic policies, which include inflation levels and stable interest rates below 5.0%, each over the past three years, and a relatively moderate debt-to-GDP ratio of 43.5% in 2013, have positively impacted Mexico's increasing stability and growth potential. In addition, positive trends in Mexican demographics include increased per capita income, access to credit and expanded domestic consumption, together with a sustainable birth rate, which translate into a sustainable demand for goods in the future. According to the Mexican National Population Council (*Consejo Nacional de Población*, or "CONAPO"), over 50% of the Mexican population is under the age of 26. As this population group ages and transitions into seeking jobs, buying homes and obtaining economic independence, further increases in domestic consumption are expected.

We believe that an increase in economic activity in Mexico, and an anticipated increase in GDP, will benefit us by increasing domestic travel and, consequently, demand for hospitality services in our target segments. Domestic travelers account for approximately 90% of all tourism spending in Mexico, according to information from Mexico's Ministry of Tourism. Our ability to operate successfully in a modest growth environment, as was the case in 2013 and the first half of 2014, leads us to believe that we are well positioned to benefit from the anticipated growth of the Mexican economy.

We also believe our target customers have been underserved by hotel chains, as chain hotels represent only approximately 21.0% of the total existing hotels in Mexico, compared to approximately 69.0% of the room inventory in the United States, according to studies published by Euromonitor and PricewaterhouseCoopers. Of the chains operating in Mexico, only three chains, of which only one is an international chain, currently have 45 or more hotels. By contrast, we expect to expand our 86 hotels as of June 30, 2014 to 100 by the end of 2014 and have established a reputation for modern facilities and consistent value and quality across Mexico. Our scale, combined with the fragmented existing hotel network, offers significant market share and organic growth opportunities for operators like us with a highly recognized product, superior brands and nationwide coverage.

As per capita income and Mexican GDP continue to grow, we believe value-conscious travelers will be increasingly selective in their lodging choices, a trend that we believe we can capitalize on through our price-value proposition, our three distinct, well-defined and recognized brands and our distribution network. Additionally, we believe we can benefit from an increase in ADRs driven by rising industry-wide occupancy rates and increasing consumer purchasing power.

Our integrated business platform and flexible operating model enabled us to adapt our development plans to the global economic crisis of 2009 and to the modest growth experienced in 2013 by, for example, promptly adjusting the rate of new-hotel developments to preserve our balance sheet, increasing the use of our IT platform to enhance productivity across the business and revising our marketing and commercial initiatives to sustain or grow RevPAR. While industry-wide investment in new rooms has not fully recovered since the economic crisis, we believe we invested more than any other hotel chain in Mexico in new-room growth over the past five years. Due to our operating efficiencies, we were able to maintain consistent RevPARs for Established Hotels over the same period. We therefore believe we are well-positioned to increase our market leadership as Mexican lodging demand and GDP continue to recover.

Target Organic Growth and Improved Profitability by Building on our Strong Business Platform

Our business platform offers guests limited-service accommodations with consistent standards of quality, safety and comfort across Mexico at affordable prices. By continuing to focus on this business model, we expect to consistently grow our revenue and Adjusted EBITDA organically through new-construction hotel openings and higher ADRs and

occupancy as our new properties continue their ramp-up cycle and become Established Hotels. As of June 30, 2014, 37.2% of our hotels and 38.1% of our rooms had not yet become Established Hotels and were still in their initial ramp-up cycle. In order to implement our growth strategies, we intend to use a significant portion of our free cash flow and balance sheet capacity to invest in greenfield hotel projects and strategic hotel property acquisitions. We also intend to increase cost-efficiencies at our Established Hotels, by causing such properties to become more productive. As we grow, we expect to benefit from additional economies of scale to optimize costs for supplies, hotel development and operations. Our significant investment in technology is expected to further streamline our centralized systems, increase our operating efficiency and improve our marketing efforts and guest satisfaction. We also seek to improve our profitability by focusing our capital investments on properties with the greatest potential to deliver high returns.

Given the opportunities in the market, we expect to grow our business of managing third-party owned hotels. This type of growth allows us to increase the number of hotels we manage without making significant capital investments and provides exposure to urban areas in which there are limited opportunities to acquire land or hotels. In addition, we will continue to reinvest a significant portion of our management and franchise services fees in our brands in order to improve our market position in Mexico and penetrate specific markets in Latin America.

Expand our Hotel Network in Latin America Through Select Strategic Opportunities

While our main focus will continue to be expansion within Mexico, we expect to continue our international growth plans in countries in which our business model can be most effectively deployed. We view expansion into certain Latin American markets as an extension of our current business strategies and expect to benefit from a penetration of chain hotels in Latin America that is even lower than in Mexico. As of June 30, 2014, we have a *City express* hotel operating in San José, Costa Rica and one in Cali, Colombia, both of which are fully owned. We expect to carry out this selective regional expansion through co-ownership arrangements with local business partners. As of June 30, 2014, we had already entered into a co-ownership agreement in respect of new hotel developments in Chile and Peru, and have acquired parcels of land to support these projects. We may also consider entering into franchise and management agreements in these markets in the future.

We believe our continued expansion in strategically positioned markets outside of Mexico will allow us to benefit from integration initiatives taking place throughout Latin America, such as the recently established Pacific Alliance. These initiatives are expected to foster economic growth and integration, which may in turn lead to an increase in regional business and leisure travel. We believe that our increased activity in competitive manufacturing and business markets in Latin America will benefit from these developments.

Recent Developments

In May 2014, we acquired the non-controlling interest of Desarrolladora Hotelera del Bajío, S.A. de C.V., in the Silao *City express* hotel located in Bajío, a center of the Mexican automotive industry. This hotel, which was previously co-owned, was opened in December 2008 and contains 121 rooms.

On August 12, 2014, we opened the 115-room Monterrey Norte *City express*, our 87th hotel, which is operated under a management contract. This hotel, located in Monterrey, Nuevo Leon, is the third Hoteles City property in Monterrey, one of the leading business and industrial hubs in the country.

On September 18, 2014, we opened the 124-room Central de Abastos *City express* in Mexico City, our 88th hotel, which is operated under a lease contract. This hotel is located in one of the most important commercial and business hubs of Mexico City.

On September 22, 2014, we launched a process that is intended to enhance certain aspects of our brand architecture, as part of our continuous effort to strengthen and improve our competitive market position in the segments in which we operate. This strategy is intended to position our *City express* brand at the core of our brand portfolio, thereby leveraging its national brand recognition.

On September 23, 2014, we agreed to acquire the 45-suite Querétaro *City Suites*, located in the industrial corridor of Jurica, Querétaro. We plan to be develop 53 new suites in this property, thereby expanding the total room inventory to 97 suites. This hotel, which opened in December 2005, was initially developed as a managed hotel.

We are in the process of preparing our operating and financial results for the three and nine months ended September 30, 2014, which we expect to report to the CNBV and the BMV on or about October 22, 2014. As of the date of this offering memorandum, we expect that our results for the periods ended September 30, 2014 should be consistent with the revenue, profitability and other operating trends we have experienced during the first six months of 2014. This is a preliminary estimate, and the results for the periods ended September 30, 2014 remain subject to further internal review and adjustment and the completion of our financial procedures. Accordingly, actual results for the three and nine months ended September 30, 2014 may differ materially from our preliminary estimates.

THE GLOBAL OFFERING

The following is a brief summary of certain terms of the global offering. For a more complete description of our shares, see "Description of Our Capital Stock and Bylaws."

Issuer	Hoteles City Express, S.A.B. de C.V.
Shares offered in the global offering	100,000,000 shares of common stock, no par value.
Offering price per share	The offering price is Ps.23.50 per share, equivalent to US$1.75 per share based on the exchange rate of Ps.13.43 per U.S. dollar published on October 8, 2014.
The international offering	We are offering 63,782,608 shares through the initial purchasers in the United States to qualified institutional buyers as defined in Rule 144A under the Securities Act, and in other countries outside Mexico and the United States, to non-U.S. persons in reliance on Regulation S under the Securities Act.
The Mexican offering	Concurrently with the international offering, we are offering 36,217,392 shares in a public offering in Mexico, conducted by the Mexican underwriters, pursuant to a separate Spanish-language prospectus prepared in accordance with Mexican law requirements and approved by the CNBV, that contains information that is substantially similar to the information included in this offering circular, except that the Mexican prospectus includes other information required by regulation in Mexico. See "Plan of Distribution."
Reallocations	The number of shares being offered in the global offering (including any shares issued pursuant to the option to purchase additional shares) may be reallocated between the international offering and the Mexican offering, depending upon demand and other factors in the Mexican market and the international market. The closing of the international offering and the Mexican offering are conditioned upon each other.
Option to purchase additional shares	We have granted the initial purchasers and the Mexican underwriters independent options, to be exercised on a coordinated basis, within 30 days from the date of this offering memorandum, to purchase up to an additional 15,000,000 shares to cover overallotment options, if any.
Shares outstanding immediately after the global offering	Immediately following the global offering, we will have an aggregate of 375,111,459 shares outstanding assuming no exercise of the option to purchase additional shares.
Use of proceeds	The net proceeds to us from the sale of the shares being offered in the global offering will be Ps.2,256.6 million, assuming no exercise of the option to purchase additional shares, after deducting underwriting discounts, commissions and estimated offering expenses. We intend to use the net proceeds from the global offering primarily to continue our plans for expanding our hotel network, including acquiring real estate and the development, opening,

	operation and marketing of future hotel projects in the areas in which we currently operate, to continue with the development of our brands primarily throughout Mexico, to continue to invest in our commercial and distribution platforms and for general corporate purposes. In addition, in accordance with our past practice and in the ordinary course of business, we may use a portion of these proceeds for future acquisitions of the minority interests in our co-owned hotels that we do not hold. See "Use of Proceeds."
Listing	The shares are registered with the RNV maintained by the CNBV and are listed on the BMV. An application has been filed to update the registration of the shares with the RNV maintained by the CNBV. Upon consummation of the global offering, such updates to the registration and listing will have been effected.
BMV symbol	"HCITY"
Settlement and delivery	Settlement of the shares will be made on or about October 14, 2014 in book-entry form only through the facilities of Indeval. Payment for the shares must be made in pesos.
Voting rights	All of our shares have equal voting rights in our general shareholders' meetings. Each share grants full and identical voting rights to its holder. See "Description of our Capital Stock and Bylaws" for a discussion of your voting rights.
Dividends	See "Dividends and Dividend Policy" for further information.
Taxation	Under Mexican law, dividends paid by us to holders of our shares who are non-Mexican residents for tax purposes are currently subject to a 10% withholding tax. This withholding is considered final and cannot be credited against any other tax in Mexico. This withholding applies to dividends paid from profits earned after January 1, 2014. For certain Mexican and U.S. federal income tax consequences of holding and disposing of our shares, see "Taxation."
Transfer restrictions	The shares have not been and are not expected to be registered under the Securities Act or with any securities regulatory authority of any U.S. state or other jurisdiction and, accordingly, may not be offered, sold, pledged or otherwise transferred or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except as set forth in "Transfer Restrictions." In accordance with our bylaws, in certain cases the authorization of our Board of Directions or our shareholders is required prior to acquiring our shares or entering into agreements to vote in respect thereof. See "Description of our Capital Stock and Corporate Bylaws—Anti-Takeover Protections."
Lock-up agreements and other restricted sales	We, our principal officers, the members of our Board of Directors and our shareholders beneficially owning more than 5.0% of our capital stock and certain other principal shareholders have agreed,

	subject to certain exceptions, for a period of 90 days from the date of the offering memorandum, without the prior written consent of the representatives, not to issue, offer, sell, contract to sell, pledge or otherwise dispose of, any shares of our capital stock or any securities convertible into or exchangeable for, or that represent the right to receive, shares of our capital stock (the "Lock-up Agreements"). See "Plan of Distribution." Additionally, our existing shareholders at the time of our initial public offering entered into an agreement pursuant to which they have agreed to restrictions related to the sale of our shares for a period ending on June 5, 2015. See "Principal Shareholders."
Risk factors	Investing in our shares involves risks. See "Risk Factors" and the other information in this offering memorandum for a discussion of factors you should carefully consider before deciding to invest in the shares.

SUMMARY FINANCIAL AND OPERATING INFORMATION

The following tables present summary financial and operating information for the periods presented. The summary financial information is derived from our Audited Financial Statements and our Interim Financial Statements. These tables should be read together with "Presentation of Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements included elsewhere in this offering memorandum. Our Audited Financial Statements and our Interim Financial Statements have been prepared in accordance with IFRS.

Our Financial Statements and other financial information included in this offering memorandum, unless otherwise specified, are stated in Mexican pesos. The U.S. dollar amounts provided below are translations from the Mexican peso amounts, solely for the convenience of the reader. See "Presentation of Financial and Other Information—Currency Information" for an explanation of the exchange rates used to translate Mexican peso amounts into U.S. dollars. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated or at any other rate.

	For the Six Months Ended June 30,			For the Year Ended December 31,		
	2014	2014	2013	2013	2012	2011
	(thousands of US$)	(thousands of Ps.)		(thousands of Ps.)		
Consolidated statements of income data						
Revenues from hotel operation	47,340.4	615,425.0	487,553.5	1,055,702.7	890,715.7	686,767.1
Revenues from hotel management	2,616.4	34,013.8	21,902.0	48,252.9	41,487.6	28,280.9
Total	49,956.8	649,438.8	509,455.5	1,103,955.6	932,203.3	715,048.0
Hotel operating costs and expenses	25,828.0	335,764.1	272,976.6	569,704.6	502,353.3	409,821.0
Selling and administrative expenses	7,903.2	102,741.7	81,155.8	177,174.4	147,540.8	113,155.0
Depreciation	7,798.2	101,377.1	75,666.3	163,662.6	144,498.5	107,750.8
Cost and expenses	41,529.4	539,882.9	429,798.7	910,541.6	794,392.6	630,726.8
Expenses associated with opening of new hotels	515.8	6,706.0	5,812.7	15,967.4	12,277.6	13,527.4
Other (income) expenses	-	-	(1,313.7)	(1,119.4)	2,594.1	2,380.1
Consolidated operating income	7,911.6	102,849.9	75,157.8	178,566.0	122,939.0	68,413.7
Finance costs	(4,455.1)	(57,916.4)	(49,968.5)	(106,241.4)	(97,480.6)	(81,348.6)
Finance income	1,630.2	21,192.1	10,325.6	38,189.7	17,264.6	13,186.0
Exchange result, net	(436.6)	(5,675.8)	(744.1)	(2,245.9)	(10,137.5)	14,794.7
Effects of valuation of financial instruments	49.2	639.8	1,273.8	2,355.3	(1,435.3)	1,701.1
Other financial costs	-	-	(722.1)	(8,136.8)	-	-
Income before tax	4,699.3	61,089.6	35,322.5	102,487.2	31,150.1	16,746.8
Income tax expense	939.8	12,217.9	7,064.5	18,754.1	5,557.8	6,743.8
Consolidated net income	**3,759.5**	**48,871.7**	**28,258.0**	**83,733.1**	**25,592.3**	**10,003.0**
Earnings per share	0.0128	0.1666	0.1462	0.3087	0.1295	0.1160
Weighted average number of shares outstanding	275,111,459	275,111,459	193,740,819	235,105,984	185,254,311	185,254,311

Note: For comparison purposes, the weighted average number of shares outstanding for the years ended December 31, 2011 and 2012 reflect the effectiveness of the three for one stock split of our shares that was approved by our shareholders on May 22, 2013.

	As of June 30,		As of December 31,		
	2014	2014	2013	2012	2011
	(thousands of US$)	(thousands of Ps.)	(thousands of Ps.)		
Consolidated statements of financial position data					
Current assets:					
Cash, cash equivalents and restricted cash	102,192.6	1,328,503.4	1,687,289.9	555,008.6	571,182.9
Trade receivables, net	6,109.0	79,416.8	63,183.4	43,325.0	32,199.0
Recoverable taxes – mainly value-added tax	16,701.7	217,122.3	166,770.0	121,930.1	85,093.7
Prepaid expenses	3,601.6	46,820.4	33,588.2	36,689.8	37,915.7
Assets available for sale	652.8	8,486.8	-	-	-
Total current assets	129,257.7	1,680,349.7	1,950,831.5	756,953.5	726,391.3
Property, equipment and leasehold improvements	446,878.9	5,809,425.7	5,449,937.6	4,494,785.8	3,881,235.8
Guarantee deposits	222.9	2,897.8	2,897.8	2,897.8	2,396.7
Other assets	1,133.2	14,731.7	12,565.1	108,122.7	8,681.9
Derivative financial instruments	1.3	17.5	102.4	344.0	2,700.1
Total assets	**577,494.0**	**7,507,422.4**	**7,416,334.4**	**5,363,103.8**	**4,621,405.8**
Liabilities and equity					
Current liabilities:					
Bank loans and current portion of long-term debt	9,136.6	118,775.2	107,857.8	86,688.4	55,844.5
Trade accounts payable	4,655.4	60,520.4	44,693.2	47,750.6	38,410.8
Other taxes and accrued expenses	9,677.1	125,801.8	84,689.7	85,836.8	31,828.2
Derivative financial instruments	-	-	-	262.9	1,183.6
Income tax and business flat tax	615.2	7,999.0	4,234.1	10,387.4	8,349.7
Direct employee benefits	88.0	1,143.5	1,097.5	6,067.3	4,871.1
Total current liabilities	24,172.3	314,239.9	242,572.3	236,993.4	140,487.9
Long-term debt	149,327.7	1,941,259.7	1,966,589.6	1,625,551.1	1,049,320.4
Derivative financial instruments	1,596.3	20,752.2	10,720.7	-	-
Deferred revenue	1,483.0	19,279.5	15,876.2	17,851.2	13,234.2
Employee benefits	99.9	1,299.2	1,140.2	1,033.4	465.4
Deferred income tax	11,564.8	150,342.3	153,400.1	224,713.5	248,381.0
Total liabilities	**188,244.0**	**2,447,172.8**	**2,390,299.1**	**2,106,142.6**	**1,451,888.9**
Equity					
Equity attributable to owners of the Company:					
Issued capital	283,722.6	3,688,393.8	3,642,550.3	716,942.8	716,942.8
Additional paid-in capital	-	-	52,459.5	1,074,219.2	1,074,219.4
Retained earnings	53,362.8	693,716.9	645,826.1	651,702.8	644,867.4
Accumulated other comprehensive income	(2,097.0)	(27,261.5)	(18,764.9)	1,187.2	3,211.4
Total equity attributable to owners of the Company	334,988.4	4,354,849.2	4,322,071.0	**2,444,052.0**	**2,439,241.0**
Non-controlling interests	54,261.6	705,400.4	703,964.3	812,909.2	730,275.9
Total equity	389,250.0	5,060,249.6	5,026,035.3	3,256,961.2	3,169,516.9
Total liabilities and equity	**577,494.0**	**7,507,422.4**	**7,416,334.4**	**5,363,103.8**	**4,621,405.8**

	For the Six Months Ended June 30,			For the Year Ended December 31,		
	2014	2014	2013	2013	2012	2011
	(thousands of US$)	(thousands of Ps.)		(thousands of Ps.)		
Non-IFRS Financial Data						
Adjusted EBITDA	16,225.6	210,932.9	156,636.8	358,196.1	279,715.0	189,691.8

See "—Adjusted EBITDA Reconciliation" below for a reconciliation of our operating income to Adjusted EBITDA.

	As of and for the Six Months Ended June 30,		As of or for the Year Ended December 31,		
	2014	2013	2013	2012	2011
Operating Statistics:					
Number of hotels at period end	86	73	82	71	62
Number of rooms at period end	9,778	8,360	9,326	8,092	6,973
Growth (%)	17.0%	16.1%	15.2%	16.0%	25.4%
Number of available room nights	1,729,097	1,479,797	3,040,485	2,692,814	2,229,818
Growth (%)	16.8%	14.1%	12.9%	20.8%	21.1%
Number of occupied room nights	976,411	786,992	1,675,426	1,530,712	1,223,053
Growth (%)	24.1%	10.9%	9.5%	25.2%	15.8%
Average Occupancy Rate	56.5%	53.2%	55.1%	56.8%	54.8%
ADR (Ps.)	730	724	722	683	668
RevPAR (Ps.)	412	385	398	388	366
Adjusted EBITDA per room [(1)]	22,083	19,042	41,129	37,134	30,266
Established Hotels Operating Statistics:					
Number of Established Hotels at period end	54	48	50	45	35
Average Occupancy Rate	60.2%	56.5%	58.0%	59.8%	59.4%
ADR (Ps.)	712	721	714	691	682
RevPAR (Ps.)	429	407	414	413	405

(1) Adjusted EBITDA per room is calculated by dividing Adjusted EBITDA for the period by the average number of rooms in operation during the period, which is the average between the number of rooms at the beginning of the period and at the end of the period.

RISK FACTORS

An investment in our shares involves risks. Before making a decision to buy any shares in this offering, you should carefully consider the risks described below as well as the other information contained in this offering memorandum. Any of the following risks could materially affect our business, financial condition, results of operations or prospects. In such case, the price or liquidity of our shares could decline and you could lose all or part of your investment. The risks described below are those that we currently believe may adversely affect us. Additional risks that are presently unknown to us may also impair our business, financial condition, results of operations or prospects.

Risks Related to our Business

We are subject to various operating and business risks common to the lodging industry in general.

Our hotels are subject to various operating and business risks common to the lodging industry, including the following:

- changes in the general global economic conditions and, in particular, adverse effects of local economic, regional and national market conditions;
- domestic and international political and geopolitical developments that could adversely affect travel conditions, the amount of travelers and their mobility or capacity to travel in the countries in which we operate;
- competition from other hotel properties or lodging facilities, including from those offered through electronic or digital platforms providing search and reservation services for hotels, apartments, houses and other private spaces within and outside of our markets and lodging segments;
- attractiveness of our hotels and services, including our locations, ADRs, amenities, decoration and atmosphere, to our guests;
- over-supply of, or reduction in demand for, hotels and lodging facilities in our markets and segments, which would adversely affect occupancy and revenues at our hotels;
- the impact of security issues and criminal activity on the quantity and destinations of business and commercial travel;
- dependence on business and commercial travelers and their travel patterns, preferences and methods of transportation;
- increases in operating costs and expenses, including but not limited to the cost of human capital, energy, water, insurance or other operating costs, including due to inflation;
- increases in hotel development and construction costs, including but not limited to the cost of land, cement, steel, labor, furniture, fixtures and equipment, including as a result of inflation;
- costs and risks associated with renovations of acquired, leased or managed hotels;
- risks related to investments in real property generally, including changes in interest rates, taxes and the ongoing need for capital improvements;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations;
- unforeseen events beyond our control, such as terrorist attacks, travel related health concerns, including pandemics and epidemics, such as avian flu, SARS or H1N1 influenza, political instability, regional

hostilities, travel related accidents and unusual weather patterns, including natural disasters such as hurricanes, tsunamis or earthquakes;

- litigation brought by our guests, employees, third-party property owners, business partners, suppliers and any with whom we do business;

- the financial condition of third-party property owners of our hotels;

- foreign exchange fluctuations and the availability of financial institutions to continue funding our investments; and

- the financial situation of the domestic and international aviation and land transportation industries, and their impact on the lodging industry and tourism in general.

Changes in any of these conditions could adversely affect our occupancy rates or ADRs or otherwise adversely affect our results of operations and financial condition.

The geographic concentration of our properties in Mexico may leave us vulnerable to changes in political, economic and other events, such as drug-related violence, that affect Mexico and lodging demand in our markets.

We are organized in Mexico and all but two of our operating hotels are currently located in Mexico. Due to the geographic concentration of our properties in Mexico, we are particularly exposed to adverse developments that specifically affect Mexico, such as potential downturns in the Mexican economy, political developments and the public's attitude towards the safety of travel in Mexico. The Mexican economy was significantly and adversely affected by the global financial crisis, as evidenced by a 4.7% decrease in real terms in the country's GDP in 2009. The economic recession presented many challenges for the hotel ownership and management industry and our target markets, and forced some aviation and tourism companies to file for bankruptcy. Among other factors, we are exposed to variations in employment levels and inflation, which affect companies' spending habits. Economic or political changes that reduce disposable income or consumer or business confidence may affect demand for business-related travel. Decreases in lodging demand could lead to price discounting that, in turn, could also reduce the profitability of our business. High crime rates, violence resulting from drug-trafficking activities and kidnappings have been experienced in several areas of Mexico, including areas in which we operate, and have been widely covered in the international media. Business travelers have been and may continue to be deterred from traveling to Mexico or certain areas within Mexico in which we operate based on these events and the resulting media coverage. Lodging demand and tourism in general have been and are expected to continue to be affected by these and other similar circumstances, which could adversely and significantly affect our activities, financial condition, results of operations, capacity to pay dividends, the trading price of our shares and the value of our properties.

The hotel and lodging industry is highly competitive, and, if we are unable to compete successfully, our financial condition and results of operations may be harmed.

The hotel and lodging industry is highly competitive. Our target segment is principally domestic travel, particularly value-conscious business travel, and we compete primarily with other domestic and international hotel chains and independent lodging facilities. We may also face competition from apartments, rooms and other private residences and lodging services distributed independently through the internet and electronic and digital platforms. Competition is mainly based on location, price or room rates, commercial and distribution capacity, brand recognition, the quality of the accommodations and service levels. In addition, we may face competition from new entrants in the business and in our target segments in Mexico and in the countries in which we have business interests, including Colombia, Chile, Costa Rica and Peru. Some competitors, including those affiliated with or under the umbrella of large global hotel chains, may have significantly greater financial, marketing and other resources than we have. Furthermore, we compete with all other hotels and lodging providers for guests in each market in which we operate, as our typical business guests may change their travel, spending and consumption patterns and choose hotels or lodging in different segments. Competitors may offer more competitive rates, greater convenience, services or amenities or superior facilities, which could attract guests away from our hotels, resulting in a decrease in occupancy rates and ADRs for our hotels. Any of these factors may have an adverse effect on our competitive position, results of operations and financial condition.

Our principal business strategy is to develop new hotels in the limited-service segment and to selectively acquire hotels. We are subject to risks inherent in concentrated investments in a particular industry and within selected segments of such industry. Increased competition in the hotel industry in general or in the segments in which we operate could have a greater impact on us than if we had diversified our investments outside limited-service hotels or the hotel industry or in additional market segments and could have a material adverse effect on our financial condition and our results of operations.

In addition, while we seek to grow through increasing the number of hotel properties we own, an important portion of our existing business is to manage hotel properties owned by others, and we face competition from other entities seeking the same opportunities. Although in the past we have generally been successful in renewing our existing contracts, and in finding new properties to manage, there can be no assurance that we will continue to be as successful in the future. Competition may generally reduce the number of suitable growth opportunities available to us, increase the bargaining power of property owners and reduce our operating margins. In addition, the terms of management contracts and leases that we enter into in the future may not be as favorable as agreements that we have entered into previously.

We may not be able to achieve our growth objectives.

We have implemented an accelerated growth strategy for our hotel business. In addition to the 12 hotels that began operating in Mexico during the twelve-month period ending June 30, 2014, we opened our second international hotel in Cali, Colombia in December 2013. We plan to continue developing hotels primarily in Mexico, as well as in Colombia, Chile and Peru. Our ability to expand will depend on a number of factors including, but not limited to, economic conditions, our ability to attract and retain employees and labor, the availability of new properties that we can lease or manage, the availability of suitable locations for new-construction hotels and all the risks inherent in acquisitions, property development and operation. In addition, we have entered into co-ownership arrangements in respect of our domestic and international operations, and our growth plan is dependent on successful relationships with our partners, including that our partners honor their commitments, financial and otherwise. There can be no assurance that our expansion plans both in Mexico and in Latin America can be accomplished, or that new hotels will meet with consumer acceptance, be operated profitably or justify the associated capital invested.

If the opportunity arises, we may explore acquisitions of undeveloped properties or hotels in new markets across Latin America. Successful execution of our growth plan will require significant capital expenditures before any significant associated revenues or cash flows are generated, and each of the risks applicable to our ability to successfully develop and operate hotels in our current markets is also applicable to our ability to develop and operate hotels in new markets. Our international operations are subject to numerous additional risks including political, geopolitical and social developments in the relevant countries; our lack of familiarity with the dynamics and market conditions of any new markets we may enter; exposure to local economic conditions; compliance with the various legal requirements of each relevant jurisdiction; potential adverse changes in the relations of foreign countries with Mexico; restrictions and taxes on the withdrawal of foreign investment and earnings; government policies against businesses owned by foreigners; investment restrictions or requirements; diminished ability to legally enforce our contractual rights in foreign countries; fluctuations in foreign currency exchange rates; and adverse tax rates. We may be unable to expand into new markets or achieve a return on our investments in new markets, which could adversely affect our business, financial condition and results of operations and cash flow. In addition, our growth plans may detract financial and other resources, including management resources, from our existing operations, in the event that we are unable to effectively manage and implement our growth strategy and our operations. The risks associated with the international expansion of our operations are difficult to predict or mitigate and could have a material adverse effect on our business, financial condition and results of operations.

We are exposed to risks associated with property acquisition and development.

We have focused on acquiring land parcels and developing our own hotel properties as greenfield developments. Our business plan is centered on the development and application of detailed and standardized parameters for hotel construction that allow for a consistent and replicable development process, which in turn minimizes variations in development costs and project times. In addition, any hotels or buildings we acquire may periodically undergo renovation and refurbishment in order for them to meet our standardized parameters. Development, construction and renovation projects, however, subject us to inherent development risks, including, without limitation:

- the identification of suitable strategically located properties and the acquisition of such properties on favorable terms;
- competition from other lodging business-related companies that may have more financial resources than us, which may increase the purchase price of a desired property;
- the resulting lack of capitalization on any investment related to identifying and valuing development opportunities, should we subsequently decide to abandon such opportunities;
- availability and timely receipt of zoning and other regulatory approvals and permits, the denial of which could delay or prevent placing a hotel into operation;
- the cost and timely completion of construction (including unanticipated risks beyond our control, such as weather or labor conditions, shortages of materials or labor and construction overruns);
- our dependency on the third parties whom we contract to construct our hotels, including their ability to meet construction timing, quality and budget expectations;
- design, structure or construction defects that could result in additional costs associated with repair, delay or the closing of part or all of a property during such repair period;
- insufficient cash from operations, or an inability to obtain the necessary debt or equity financing on satisfactory terms, to consummate an acquisition or development project;
- the ability to achieve an acceptable level of occupancy upon completion of construction;
- continued compliance with local and municipal rules and regulations, including zoning ordinances and permits, which may restrict the development and use of our properties; and
- the acquisition of buildings requiring renovation and refurbishment in order to meet our standardized parameters, which may involve significant expenditures and adversely affect our growth strategy.

These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development, construction or renovation projects once undertaken, making the project less profitable than originally estimated or not profitable at all and therefore having an adverse effect on our business, financial condition, results of operations and cash flow.

Our business is capital-intensive, and we may not have access to adequate financing.

For our hotel properties to remain attractive and competitive, we have to consistently invest resources to keep the properties well-maintained, modernized and refurbished. Furthermore, the hospitality industry continues to demand the use of sophisticated technology and systems, which can be expected to require enhancements and new interfaces, including those to comply with tax and legal requirements such as electronic invoicing and accounting, privacy regulations and specifications established by third parties such as local or federal governments, the payment card industry, and operators of electronic or digital commercial platforms. The investment in and development and maintenance of modern commercial platforms may require significant capital. In addition, to execute our growth strategy and maintain a strong and visible network of hotels we need to invest resources to develop new hotels or to acquire hotels in strategic locations. To the extent possible, we also intend to purchase over time the minority interests of certain partners of the hotels we co-own. Furthermore, we plan to make direct and indirect investments in companies developing or operating lodging distribution platforms both in Mexico and internationally. These efforts create an ongoing need for cash and, to the extent we cannot fund expenditures from cash generated by operations, funds generally must be borrowed or otherwise obtained.

In the past, we have been able to obtain equity or debt financing on terms attractive to us. However, financing available to Latin American companies, and particularly in countries in which we operate or are considering expanding such as Costa Rica, Colombia, Chile and Peru, often does not have interest rates and general terms and conditions that

are as competitive as those of countries such as the United States and other developed economies. Past events, including the failures and near failures of financial services companies and the decrease in liquidity and available capital, tightened the availability of credit and increased the cost of obtaining financing for hotel investments. Such events may unexpectedly occur in the future, and could affect our capacity to obtain the financing necessary to execute our expansion plans in Mexico and other markets. Our access to capital will depend upon a number of factors over which we have little or no control, including general market conditions, the market's perception of our current and potential future earnings and cash distributions and the market price of our shares. We cannot assure you that we will be able to continue to raise financing from past sources, or from other sources, on terms comparable to our existing financing or at all. If the cost of such financing increases or we are unable to obtain such financing, we may be forced to incur higher financing costs than we currently incur, which could have an adverse impact on the execution of our growth strategy and business.

Our financing arrangements contain debt service obligations and restrictive covenants that may adversely affect our operations, overall operating results and our subsidiaries' ability to make distributions in the future.

As of June 30, 2014 we held, through our subsidiaries, Ps.2,060.0 million of total indebtedness. Of such total indebtedness, approximately Ps.118.8 million was short-term indebtedness (including the current portion of long-term indebtedness) and approximately Ps.1,941.3 million was long-term indebtedness. In addition, we intend to incur additional debt to fund our growth strategy and develop new hotels. Current and future debt obligations subject us to many risks, including:

- interest rates may increase or exchange rates may fluctuate in a way that adversely affects our borrowing costs;
- our operating cash flow may be insufficient to make required payments of principal and interest;
- our leverage may increase our vulnerability to adverse economic and industry conditions;
- our compliance with certain restrictive covenants may limit our ability to, among other things and subject to certain exceptions, borrow additional money, make prepayments on our debt, consummate acquisitions or investments, dispose of assets, incur liens, enter into transactions with affiliates or pay dividends;
- we may be required to dedicate a substantial portion of our operating cash flow from operations to payments on our debt, thereby reducing funds available for operations and capital expenditures, future business opportunities, dividends or other purposes; and
- the terms of any refinancing we seek may not be as favorable as the terms of the debt being refinanced.

In particular, certain of our subsidiaries are subject to financial ratio covenants, including: (i) leverage ratios, calculated by dividing total liabilities by total equity; (ii) interest coverage ratios, calculated by dividing gross operating income plus depreciation by net interest; and (iii) debt coverage ratios, calculated by dividing gross operating income plus depreciation by the current portion of long-term total debt plus interest paid. In addition, the terms of some of these financial obligations restrict our subsidiaries from paying dividends, decreasing share capital, disposing of or distributing assets without the consent of the relevant financial institution or creditor, which could affect our ability to pay dividends. See "—We are a holding company, and we depend on the results of operations of our subsidiaries."

If we violate covenants in our debt agreements, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all.

We face risks related to fluctuations in interest rates, which could negatively affect the results of our operations and our ability to repay our debts and other obligations.

As of June 30, 2014, we had a total of Ps.1,876.6 million in financial liabilities that bore interest at variable rates. Fluctuations in interest rates will affect the cost of these liabilities. If interest rates increase, the payment obligations

on variable interest rate debt will increase (even if the principal amounts remain the same) and the net income available to pay off this debt will decrease. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Risk Management—Interest Rates." As a result, our financial condition, results of operations and liquidity could be adversely affected. In addition, our attempts to minimize the risks related to interest rates by financing our liabilities in the long term with fixed interest rates and the use of derivatives, such as interest rate swaps, could result in a failure to achieve savings if interest rates were to decline.

We are subject to governmental regulations.

We are subject to laws, ordinances and regulations relating to, among other things, taxes, environmental matters, labor, accessibility for disabled persons, equal opportunity, construction, occupational health and safety, civil and consumer protection and general building and zoning requirements in the various jurisdictions in which our hotels are located. Owners and managers of hotels may also be subject to laws governing the relationship with hotel employees, including minimum wage requirements, overtime, working conditions and work permit requirements. In November 2012, Mexican federal labor laws were amended to regulate discrimination in the workplace, trial and temporary employment and sub-contracting. As of the date of this offering memorandum, we are evaluating whether these reforms will increase our labor contingencies or labor costs, which may have an adverse effect on our business, and whether they will have a material impact on the terms and conditions of our employment contracts. In addition, compliance with these laws may be cumbersome and difficult to monitor, and failure to comply with them may materially and adversely affect our results of operations. We cannot assure you that existing regulatory policies will not adversely affect us or the timing or cost of any future acquisitions, developments or renovations, or that additional regulations will not be adopted that would increase such delays or result in additional costs.

Local and municipal regulations, including civil protection, zoning and other restrictions, may restrict the use of our hotels and require at any time the authorization of local authorities, private community organizations or condominium associations regarding our real estate properties, including before their acquisition or development, and after development, for any refurbishments of any of our real estate properties. Among others, such restrictions may have fire hazard and safety requirements which may increase our operating costs. Our growth strategy may be affected by our capacity to obtain permits, licenses and zoning approvals. Failing to obtain such permits, licenses and zoning approvals may result in fines and other penalties that may have an adverse effect on our business, financial condition and results of operations. Our hotels are also subject to periodic inspections by the Mexican Consumer Protection Agency (*Procuraduría Federal del Consumidor*), which may fine us based on the extent and manner in which our hotels fail to comply with the applicable regulations.

In addition, Mexican environmental regulations have become increasingly stringent over the last decade. The Mexican government has implemented an environmental program enacting regulations related to ecological planning, risk evaluation and environmental impact, air pollution, protected natural areas, protection of flora and fauna, conservation and rational use of natural resources and ground pollution, among many others. Environmental laws, ordinances and regulations of the various jurisdictions in which we operate regulate our properties and could make us liable for the costs of removing or cleaning up hazardous or toxic substances on, under, or in property we currently own, operate or lease or that we previously owned, operated or leased without regard to whether we knew of, or were responsible for, the presence of hazardous or toxic substances. The presence of hazardous or toxic substances, or the failure to properly clean up such substances when present, could jeopardize our ability to develop, use, sell or rent the affected real property or borrow money using such property as collateral. The Mexican federal authorities, such as the Environment and Natural Resources Ministry (*Secretaría de Medio Ambiente y Recursos Naturales*), the Federal Environmental Protection Agency (*Procuraduría Federal de Protección al Ambiente*) and the National Water Commission (*Comisión Nacional del Agua*), as well as municipal authorities, have the authority to file civil, administrative and criminal proceedings against companies that breach the applicable environmental laws, and may also stop any development that does not comply with such laws. Future changes in, or additions to, environmental laws or the discovery of currently unknown environmental conditions may have a material adverse effect on our financial condition and results of operations. See "Our Business—Regulation."

Changes to the regulations applicable to our properties, including civil protection, environmental, tax, labor, zoning and other laws may result in additional costs and expenses for our business.

We are required to comply with the Federal Law on the Prevention and Identification of Operations with Illicit Resources due to our operating activities.

On October 17, 2012, the Federal Law on the Prevention and Identification of Operations Using Illicit Resources (*Ley Federal para la Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita* or the "Money Laundering Act") was published in the Official Gazette and went into force on July 17, 2013. Additionally, the Regulation of the Anti-Money Laundering Law (*Reglamento de la Ley Antilavado*), which was published on August 16, 2013, and Agreement 2/2013, which was published on August 23, 2013, went into force on September 1, 2013 (in conjunction with the Regulation of the Anti-Money Laundering Law, the "Anti-Money Laundering Provisions"). Under the Anti-Money Laundering Provisions, we are required to submit to the Ministry of Finance certain notices in connection with to the establishment of personal rights of use or enjoyment of real property provided that the monthly amount of the act or transaction with a customer is equal to or greater than 3,210 times the minimum wage in the Federal District of Mexico with such activity being considered vulnerable if the amount of the monthly operation is less than or equal to 1,605 times the minimum wage in the Federal District) (collectively, the "Vulnerable Activities"). Other additional reporting obligations may arise in the future.

Also, among our obligations established by the Anti-Money Laundering Provisions, is the obligation to compile and maintain records with customer information with whom we conduct Vulnerable Activities and to appoint a representative to the financial authorities to fulfill our obligations under the provisions under the Anti-Money Laundering Provisions. If we were not to meet the above obligations in the terms of the Anti-Money Laundering Provisions, we might become subject to various penalties, including fines, which could negatively impact our results of operations.

Changes in the Mexican federal income tax laws may have an adverse effect on our financial condition and results of operations.

On December 11, 2013, the tax reform proposed by the president of Mexico and approved by the Mexican Federal Congress was published in the Official Gazette. Among the substantial changes approved in the reform were the following: (i) the promulgation of a new income tax law, which provides, among other things, for (1) a new tax on dividends equal to 10% of the distribution related to income generated in 2014 and thereafter, (2) the sales of shares on the BMV, which benefitted from an exemption, to be subject to a 10% withholding tax on capital gains, (3) various restrictions on taxpayers' deductions, (4) elimination of the tax consolidation regime, and (5) an increase in the income tax applicable to individuals from 30% to 35% and, as a consequence, increase of some applicable taxes for non-Mexican residents from 30% to 35%; (ii) the repeal of the business flat tax (previously known as "IETU") and the tax on cash deposits; and (iii) the amendment of the value added tax, establishing a uniform rate for the whole country equal to 16%.

As of the date of this offering memorandum, we continue to analyze the scope and implications of the approved reform, and have sought to obtain legal relief from certain elements of the reform. Although this reform has not had, and we continue to believe that it will not have, an adverse effect on our Company, it is not possible to predict the full effect of such reform on our business, financial condition and results of operations.

Our operating costs or our expenses may remain constant or increase, even if our revenue does not increase, causing our results of operations to be adversely affected.

We are subject to factors that may adversely affect our ability to control operating costs, including the need to pay for insurance, real estate taxes, repairs or renovations of our hotels, compliance with governmental regulation, including zoning, environmental and tax laws, interest rates and personnel. Inflation could increase disproportionately to the pace at which we can profitably raise our ADRs. While our management team may be able to implement cost control measures to combat inflationary effects, we may still experience increased operating costs. If our operating costs increase as a result of any of the foregoing expenses, or any other expenses that may arise in the future, our results of operations may be materially and adversely affected. The expenses of owning and operating a hotel are not necessarily reduced when circumstances such as market factors and competition cause a reduction in income from the hotel. As a result, if revenue declines, we may not be able to reduce our expenses accordingly. Costs associated with lodging investments, such as real estate taxes, insurance, loan payments and maintenance, generally will not be reduced even if a hotel is not at full occupancy or other circumstances cause our revenues to decrease.

Our assets may be subject to impairment charges, which would have an adverse effect on our net asset value and our results of operations.

We periodically evaluate our hotels and other assets for impairment indicators. The judgment regarding the existence of impairment indicators is based on factors such as market conditions, hotel performance and legal structure. For example, operating losses or negative cash flows in a given financial period, if combined with a history or a projection of losses, depreciation and amortization charged to our operating results that, in percentage terms, with respect to revenues, are substantially greater than those of prior financial years, obsolescence, reduction in the demand for services provided, competition and the presence of other economic and legal factors may lead to an impairment charge. If we determine that an impairment has occurred, we would be required to make an adjustment to the net carrying value of the asset, which could have a material adverse effect on our net asset value and results of operations in the period in which the impairment charge is recorded.

Our real estate taxes could increase as a result of changes in the real estate tax rate or a revaluation, which could adversely affect our cash flows.

We have an obligation to pay state and local taxes in respect of each of our hotels. Such real estate taxes may increase as a result of the change in the tax regime, the applicable tax rate or as a result of the valuation or revaluation of our hotels by the tax authorities. Therefore, the real estate tax amount to be paid in the future may differ from the real estate tax amount paid in the past. If such real estate tax amounts increase, it could adversely affect our financial condition, results of operations and cash flow.

Our financial and operating performance may be adversely affected by epidemics, natural disasters and other catastrophes.

Any outbreaks or recurrence of avian flu, SARS, H1N1 influenza or other adverse public health developments in Mexico may have a material adverse effect on our business operations. In April 2009, an outbreak of H1N1 influenza occurred in Mexico and the United States that spread to more than 70 countries. In Mexico, localized public-health measures were implemented as a result of outbreaks of H1N1 influenza, including travel bans, the closings of schools and businesses and cancellations of events. Similar epidemics could impact travel and lead to the implementation of additional public-health measures and result in reduced demand for places of public accommodation, such as our hotels, and negatively affect our business and results of operations. Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our business and results of operations.

Certain of our properties are located in areas that are more susceptible to, and could be significantly affected by, natural disasters. In particular, a number of our properties are located in regions that are susceptible to earthquakes, floods and hurricanes. In 2005 and 2008, strong hurricanes disrupted the operations of our hotels on the Gulf of Mexico and the Caribbean. These storms had a temporary adverse impact on our business and results of operations, even though our hotels were able to continue operating and returned to normal operations in a timely fashion. Furthermore, in 2013 heavy rains caused flooding and mudslides near Acapulco affecting travel to the city. These and other natural disasters that limit access to cities or regions in Mexico for a prolonged period of time may have an adverse effect on our business and operations. If similar events were to occur in the future, we could suffer interruptions in our operations, work stoppages or damage to our properties, which could have a significant adverse effect on our results of operations. Moreover, a number of our properties are also located in regions that are susceptible to droughts and water scarcity, which could lead to unexpected increases in our operating costs.

Losses caused by epidemics and natural disasters, including earthquakes or hurricanes, are either uninsurable or too expensive to justify insuring against in Mexico. In the event an uninsured loss or a loss in excess of insured limits occurs, we could lose all or a portion of the capital we have invested in a hotel, as well as the anticipated future revenues from the hotel. In that event, we might nevertheless remain obligated for any financial commitments related to the hotel. Also, in such a case, we may not have sufficient available cash, or access to equity or debt financing necessary to reconstruct or replace the affected properties. Similarly, wars (including the potential for war), terrorist activity (including threats of terrorist activity), social unrest and heightened travel security measures instituted in response to social unrest, travel-related accidents, as well as geopolitical uncertainty and international conflict, will affect travel and may in turn have a material adverse effect on our business, financial condition, and results of operations. We may not be adequately prepared in contingency planning or recovery capability in relation to any of the

foregoing incidents or crises, and as a result, our operational continuity may be adversely and materially affected and our reputation may be harmed.

Co-owned properties may carry certain additional risks relative to wholly owned properties.

As of June 30, 2014, we co-owned 24 hotels in Mexico. In addition, we entered into co-ownership arrangements for our international expansion plans in Chile and Peru in 2011. We expect to continue to invest in real estate and other hospitality related co-ownership arrangements. We may encounter difficulty identifying, or reaching agreement with, our current or potential business partners, which may delay or restrict our ability to carry out our business plan. In addition, co-ownership endeavors have often shared control over the operation of the relevant assets, and these investments therefore may involve risks such as a lack of control with respect to a real estate property or co-ownership or the possibility that the co-owner or partner in an investment might become bankrupt, not have the financial resources to meet its obligations or have economic or business interests or goals that are inconsistent with our business interests or goals. Co-owners or investment partners may block or delay the necessary decisions or make decisions or take other actions in opposition to our business plan or policies. Any dispute between us and our co-owners or investment partners may lead to an arbitration or litigation, which could increase our expenses and prevent management from focusing their time and efforts on our business. Consequently, actions by a co-owner or investment partner may subject us to additional risk or result in actions that are inconsistent with our business interests or goals.

Our management contracts and leases may be terminated or not renewed under various circumstances, which may have a material impact on our results of operations.

As of June 30, 2014, we managed 16 hotels owned by third-parties pursuant to management contracts and 4 hotels pursuant to franchise agreements. Under certain of our management contracts, the owner may cease our management of the property and terminate the contracts if we breach any substantial obligation under these agreements, subject to an early termination penalty payment by the breaching party. We also lease 11 hotel properties and manage them pursuant to agreements that require a penalty payment for early termination. Although our hotel management contracts or leases ordinarily limit the owner's ability to transfer or convey such hotels or to assign its rights to a third party and seek other protections, we cannot assure you that such transfer or conveyance will not occur nor that the third party to which the land or rights are conveyed will continue performing under such agreements. We have not experienced any material problems with respect to renewing our management or lease agreements, but we cannot assure you that the termination protections included in our management contracts and leases will prevail in our favor. Payment and enforcement actions related to these penalty payments could significantly affect our financial performance.

The termination of management contracts as a result of hotel dispositions or our inability to renew such contracts on terms as favorable to us could have an adverse effect on our revenues. In addition, hotel owners may choose to allow our management contracts to expire. The average term of our management contracts is 15 years, and the average term for our hotel leases is 15 years. In addition, we have the right to assign a management contract to an unrelated third party without prior written consent of the relevant hotel owner. We do not have the right to assign lease agreements to third parties without the prior written consent of the lessor. The early termination of management contracts or hotel leases could have a material adverse effect on our results of operations.

We are reliant on our labor force and management team.

Our managerial and other employees interact with our guests on a daily basis. They are critical to maintaining the quality and consistency of our services as well as our established brands and reputation. In general, employee turnover, especially those in lower-level positions, is relatively high in the lodging industry. As a result, it is important for us to retain as well as attract qualified managerial and other employees who are experienced in lodging or other consumer-service industries. We must provide continuous training to our managerial and other employees so that they have up-to-date knowledge of various aspects of our hotel operations and can meet our demand for high-quality services. If we fail to do so, the quality of our services may decrease, which in turn, may have a material and adverse effect on our products and our business.

Approximately 45% of our employees belong to various unions. Union contracts for hotel employees in several major markets are renewed periodically. Although we have not experienced labor stoppages or disruptions in the past,

labor disputes or the failure to timely renegotiate expiring union contracts could result in labor stoppages or disruptions, which could adversely affect our revenues and profitability.

We also depend to a significant degree on the talent, abilities and experience of the members of our management team, each of whom would be difficult to replace due to his or her extensive experience in the hotel industry and the technical knowledge relating to our operations. The loss of any of these individuals or our inability to attract and retain sufficient qualified senior management could have a material adverse effect on our business and future operations.

We are subject to risks relating to investments in real property.

We are subject to risks that generally relate to investments in real property because of the properties we own and lease. Real property may not generate the expected investment returns due to a variety of reasons, including the amount of income earned, capital appreciation generated and expenses incurred. In addition, regulations and interest rates can make it more expensive and/or time-consuming to develop real property or expand, modify or renovate hotels. Under expropriation and similar laws, governments can take or expropriate real property in exchange for some measure of "reasonable" compensation. Sometimes the compensation paid in an expropriation is less than the owner believes the property is worth. Under the Federal Law of Eminent Domain, Mexican federal authorities also have the authority to order the seizure of any property, without compensation and prior to judgment, if such property was used for the commission of drug trafficking crimes. Furthermore, we use a variety of legal structures to purchase and dispose of our real estate investments, including trusts and other holding entities. In addition, certain of our hotels are in condominiums and are subject to the rules and regulations of the condominium's association, as well as common area charges. Any of these factors could have a material adverse impact on our results of operations or financial condition.

Real estate investments are not as liquid as other types of investments, and this lack of liquidity may limit our ability to react promptly to changes in economic, market or other conditions. Our ability to dispose of real estate assets on advantageous terms depends on factors beyond our control, including competition from other sellers, demand from potential buyers and the availability of attractive financing for potential buyers. We cannot predict the various market conditions affecting real estate investments that will exist at any particular time in the future. Due to the uncertainty of market conditions that may affect the future disposition of our real estate assets, we cannot assure you that we will be able to sell our real estate assets at a profit in the future.

Interruption or failure of our information systems could impair our ability to effectively provide our services, which could damage our reputation.

Our ability to provide consistent and high-quality services, to monitor and maintain records of our operations throughout our hotels and to successfully achieve our commercial, marketing, sales, operational, corporate, financial and other goals depends on the continued operation of our information technology systems, which include three core application engines that handle on-site hotel management and reporting, reservations, centralized back office management and interaction with co-owned or third-party technology systems. Any damage to or failure of our systems could affect the manner of our services in terms of efficiency, consistency and quality, our ability to make decisions and adjustments promptly and reduce our guest satisfaction.

Our technology platform plays a central role in our management of hotel room inventory, revenues, loyalty program, franchises, among other things. Furthermore, we rely on our centralized reservation system to capture reservations from a wide range of sources and to facilitate and standardize the reservation process for our corporate clients. Our systems remain vulnerable to cyber-attacks, damage or interruption as a result of power loss, fires, natural disasters, interruptions in access to our toll-free numbers, hacking or other attempts to harm our systems and other similar events. Some of our systems are not fully redundant, and our disaster recovery planning does not account for all possible scenarios. Furthermore, our systems and technologies, including our website and database, could contain undetected errors or become outdated, and we may not be able to replace or introduce upgraded systems as quickly as our competitors or within budgeted costs for such upgrades. If we experience system failures, our quality of services, guest satisfaction, and operational efficiency could be severely harmed, which could also adversely affect our reputation. In addition, we depend on our technology platform to develop our commercial, marketing, distribution and sales strategies in a highly competitive and changing environment. Failure to adapt to the technological trends or make the necessary investments in our information systems may adversely affect our results and operations.

We may be unable to complete hotel acquisitions that would grow our business, and, even if we consummate such acquisitions, we may fail to successfully integrate and operate acquired properties.

While we intend to continue to grow our business through the development and construction of new hotels, we may seek to accelerate our growth through the selective and strategic acquisitions of existing hotels. The acquisition of existing hotels is subject to different risks than property development. In particular, we face the risk that we overestimate the value of the proposed acquisition, including as a result of deficiencies in our due diligence investigations or our budgeted amounts for renovation or redevelopment. Generally, we also make certain deposits in connection with acquisitions that we may not be refunded should we fail to consummate the acquisition. In addition, we may acquire hotels without any recourse, or with only limited recourse, for liabilities, whether known or unknown, such as clean-up of environmental contamination, claims by guests, vendors or other persons against the former owners of the hotels and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the hotels. Our ability to successfully integrate and operate acquired hotels is also subject to risks, including:

- the acquisition of properties that are not accretive to our results upon acquisition;
- the cost or time to complete the renovation or redevelopment may exceed the budgeted amounts;
- renovations may not comply with applicable rules and regulations, including zoning ordinances, which may limit our ability to use the property;
- the cost and time required to obtain and comply with the necessary permits and licenses;
- diverting the attention of senior management from our existing business operations; and
- failure to successfully re-brand or re-position the acquired hotel for our target segments.

If we cannot complete hotel acquisitions on favorable terms, or operate acquired hotels to meet our goals or expectations, our business, financial condition, results of operations and cash flow, the trading price of our shares and our ability to make distributions to holders of our shares and to satisfy any future debt service obligations could be materially and adversely affected.

The need for business-related travel and, thus, demand for rooms in our hotels may be materially and adversely affected by the increased use of business-related technology.

The increased use of teleconference and video-conference technology by businesses could result in decreased business travel as companies increase the use of technologies that allow multiple parties from different locations to participate at meetings without traveling to a centralized meeting location, such as our hotels. To the extent that such technologies play an increased role in day-to-day business and the necessity for business-related travel decreases, demand for our hotel rooms may decrease and we could be materially and adversely affected.

Concentration in internet distribution channels may negatively impact our distribution costs.

Digital or electronic intermediaries and platforms that research, plan and book a broad range of travel products are increasingly used to facilitate internet bookings for hotels, apartments, houses, rooms, and other private accommodations. We have also observed an increase in the use of these platforms to book lodging accommodations that differ from those offered by hotels. As the percentage of internet bookings and the use of such platforms increases, these internet travel intermediaries may have increased leverage to obtain higher commissions or reduced room rates. Such increases may also result in electronic and digital distribution platforms offering independent lodging services gaining a greater market share. Moreover, some of these internet travel intermediaries are attempting to commoditize hotel rooms, by increasing the importance of price and general indicators of quality at the expense of brand identification. The business plan of these intermediaries is based on an assumption that consumers will eventually develop brand loyalties to their reservations systems rather than to the service provider brands. Although we expect to derive most of our business from our direct distribution channels and traditional channels, if the amount of sales made

through internet intermediaries increases significantly or the demand for services different from those offered by hotels increases, our business and profitability may be harmed.

The termination of commercial partnerships could affect our results of operations.

We have established a broad range of commercial partnerships with well-known airlines, car rental companies, retailers and other businesses, whose customers are able to reserve rooms in our hotels based on preferential rates and other benefits offered through these partnerships. Our commercial partners are subject to various risks that could adversely affect us, including negative developments in the respective industries of our counterparties, any loss of prestige of our counterparties' respective brands or wars, natural disasters or other similar events outside the control of our counterparties. We may also be affected by changes in the negotiating power of our commercial partners and our ability to negotiate terms and conditions that are favorable to us. There is no certainty that all our counterparties in these partnerships will continue to honor their obligations under the existing contracts, nor that we will be able to renegotiate, modify or extend the terms of such contracts in a manner that is favorable to us. In the event any of our commercial partnerships expires without renewal or is terminated, we cannot guarantee that we will be able to find another partner that will provide improved or similar benefits. While we do not depend significantly on any one of these commercial partnerships, the loss of these partnerships could have a negative effect on occupancy rates, ADRs and our financial condition and results of operations.

Failure to maintain the integrity of internal or guest data could result in harm to our reputation or subject us to costs, liabilities, fines or lawsuits.

Our business involves collecting and retaining large volumes of internal and guest data, including credit card numbers and other personal information as our various information technology systems enter, process, summarize and report such data. We also maintain information about various aspects of our business operations as well as our employees. The integrity and protection of our guest, employee and company data is critical to our business. Our guests and employees expect that we will adequately protect their personal information. A theft, loss, fraudulent or unlawful use of guest, employee or company data could harm our reputation or result in remedial and other costs, liabilities, fines or lawsuits. Additionally, we are subject to the Federal Law on the Protection of Personal Data in the Possession of Private Persons (*Ley Federal de Protección de Datos Personales en Posesión de Particulares*, or the "Data Protection Act"), which protects personal data collected by companies. Under such law, we are required to help protect the confidentiality of the personal data of our hotel guests. No assurances may be given as to how such law may be interpreted, although, if strictly interpreted and enforced, we may be subject to fines and penalties in the event of violations to the provisions of such law.

Any failure to protect our trademarks and other intellectual property rights could have a negative impact on the value of our brand names and adversely affect our business.

We believe our trademarks and other intellectual property rights are an important component of our business. We rely on trademark laws to protect our proprietary rights. The success of our business depends in part upon our continued ability to use our trademarks to increase brand awareness and further develop our brand in both the Mexican and international markets. Monitoring the unauthorized use of our intellectual property is difficult and burdensome. In the future, litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation of this type could result in substantial costs and diversion of resources, may result in counterclaims or other claims against us or divert management attention and could significantly harm our results of operations. From time to time, we apply to have certain trademarks registered in Mexico and other countries in Latin America. There is no guarantee that such trademark registrations will be granted. We cannot assure you that all of the steps we have taken to protect our trademarks in Mexico and other countries in Latin America will be adequate to prevent infringement of our trademarks by others. The unauthorized reproduction of our trademarks could diminish the value of our brand and its market acceptance, competitive advantages or goodwill, which could adversely affect our business.

The assets we acquire, including any real estate, may be subject to unknown liabilities that could affect the value and profitability of these properties.

In connection with our acquisitions of real estate properties and buildings, we assume existing liabilities associated with such real estate properties or buildings, some of which may be unknown or unquantifiable at the time of the global offering. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims of tenants, vendors or other persons dealing with the entities prior to the acquisition by us of such properties, tax liabilities, employment-related issues, and accrued but unpaid liabilities, whether incurred in the ordinary course of business or otherwise. If the magnitude of such unknown liabilities is high, either singly or in the aggregate, such liabilities could adversely affect our business, financial condition, results of operations and cash flow and the trading price of our shares.

Delays in the constructions of new buildings or improvements on our properties may have an adverse effect on our financial condition and results of operations.

Delays in the construction of new buildings or improvements in our existing buildings could adversely affect our results of operations and financial condition. The construction, design, engineering, furnishing and opening phases related to our new hotels typically take six to eleven months in total, while the time period for improvements to our existing buildings varies depending upon the specific project and property. If we experience delays in the delivery of the construction works and design and engineering services for our new buildings or improvements for our existing buildings or if our contractors fail to comply with their obligations under their respective agreements, we will not be able to start operations until completion of the construction of new buildings or improvements on our existing properties. Furthermore, this may impact our business as it could be viewed as affecting our service levels. Therefore, our results of operations and financial condition may be materially adversely affected.

Our revenues may not be sufficient to cover our obligations under our lease agreements.

Of the hotels we operate, we currently lease 11 hotels from third-party owners. We make lease payments based on a fixed component and in certain instances a variable component based on the hotel's performance. Under each lease agreement, we are required to reserve up to 2% of hotel revenues for capital improvements, maintenance and refurbishments. We must comply with our lease obligations, including lease payment obligations and other obligations that require us to incur certain operating expenses, even if the hotel operation is not profitable. Our financial and operating condition may be adversely affected to the extent that our revenues and operating income are not sufficient to cover our obligations under the lease agreements.

If we were to incur uninsured or uninsurable losses, or losses in excess of our insurance coverage, we would be required to pay for such losses, which could adversely affect our financial condition and our cash flow.

We carry certain insurance, including civil liability, property, casualty and business interruption insurance. Certain types of losses may be either uninsurable or not economically insurable, such as losses due to acts of war. Should an uninsured loss occur, we could lose both our investment in and anticipated income and cash flow from a property. If any such loss is insured, we may be required to pay a significant deductible on any claim for recovery of such a loss prior to our insurer being obligated to reimburse us for the loss, or the amount of the loss may exceed our coverage for the loss. In addition, future lenders may require such insurance, and our failure to obtain such insurance could constitute a default under our loan agreements. In addition, we may reduce or discontinue earthquake, flood or other insurance on some or all of our properties in the future if the cost of premiums for any of these policies exceeds, in our judgment, the value of the coverage discounted for the risk of loss. In addition, if any one of our insurance carriers were to become insolvent, we would be forced to replace the existing insurance coverage with another suitable carrier at potentially unfavorable rates, and any outstanding claims would be at risk for collection. If we were to incur uninsured or uninsurable losses, or losses in excess of our current coverage, our business, financial condition, results of operations, cash flow, trading price of our shares and our ability to make distributions to holders may be materially and adversely affected.

Our success could be adversely affected by the performance of our managed and franchised hotels.

Our success could be adversely affected by the performance of our managed and franchised hotels, over which we have lesser control compared to our owned, co-owned and leased hotels. As of June 30, 2014, we had 16 managed hotels, representing approximately 17% of our total rooms, and 4 franchised hotels, representing approximately 4% of our total rooms. Our franchisees may not be able to develop hotel properties on a timely basis, which could adversely affect our growth strategy and may impact our ability to collect fees from them on a timely basis. Furthermore, given that our franchisees are typically responsible for the costs of developing and operating the hotels, including renovating or developing hotel property to our standards, and all of the operating expenses, the quality of our franchised and managed hotel operations may be diminished by factors beyond our control, and franchisees may not successfully operate hotels in a manner consistent with our standards and requirements. While we ultimately can take action to terminate franchises that do not comply with the terms of our franchise-and-management agreements, we may not be able to identify problems and make timely responses and, as a result, our image and reputation may suffer, which may have a material adverse effect on our results of operations.

Fluctuations in foreign currency exchange rates could negatively affect our operating results.

Although to date substantially all of our revenue is denominated in Mexican pesos, and our operating expenses are denominated in Mexican pesos, a portion of our indebtedness related to our hotel in San Jose, Costa Rica and our hotel in Cali, Colombia is denominated in U.S. dollars; similarly, a portion of our indebtedness related to land we have acquired in Chile is denominated in Chilean pesos. In addition, as we expand internationally into other countries in Latin America, we expect to have revenues and expenses in currencies other than the Mexican peso, including the currencies of Chile and Colombia, in the near term. As historically we have not entered into foreign exchange hedges, we may be subject to exchange rate fluctuations, which could negatively affect our results of operation and financial condition.

We are subject to risks related to litigation filed by or against us.

We are subject to a number of legal actions in the ordinary course of business, as well as exposed to the risk of future litigation. As a property owner and administrator of hotels, we are subject to accident claims, civil liability or other similar claims on behalf of our guests and employees. If such claims are not resolved in our favor, we may be liable for negligence in respect of incidents that occur in our hotels. As a hotel developer, we contract with and supervise third-party contractors during the construction of our hotels and such contractors or their employees have, from time to time, brought suits against us for various reasons. We may be subject to legal disputes or proceedings that involve our development sites and cannot ensure that we will not be held responsible for the claimed compensation.

In addition, we are currently, and may in future be, involved in other litigation or proceedings arising from claims with respect to our assets and operations, including claims on behalf of suppliers, neighbors and governmental authorities and labor issues. We cannot predict with certainty the ultimate outcome and related damages and costs of litigation and other proceedings filed by or against us. Adverse results in litigation and other proceedings may harm our business.

Risks Related to Doing Business in Mexico

Adverse economic conditions in Mexico may adversely affect our financial performance.

The 2008 global credit crisis and subsequent economic recession had significant adverse consequences on the Mexican economy, which, according to INEGI, contracted by 4.7% in 2009 in real GDP terms. The Mexican economy has since recovered from this recession, with real GDP growth of 4.0%, both in 2011 and 2012 and of 1.1% in 2013. However, we cannot assure you that this recovery will continue or that a future recession will not occur.

In the past, Mexico has also experienced periods of economic crisis, caused by internal and external factors over which we have no control. Those periods have been characterized by exchange rate instability, high inflation, high domestic interest rates, economic contraction, a reduction of international capital flows, a reduction of liquidity in the banking sector and high unemployment rates. Decreases in the growth rate of the local economies where our properties are located, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for

our properties. Because a large percentage of our costs and expenses are fixed, we may not be able to reduce costs and expenses upon the occurrence of any of these events, and our profit margins may suffer as a result. We cannot assure you that economic conditions in Mexico will not worsen, or that those conditions will not have an adverse effect on our financial condition and results of operations.

Recent disruptions in the global credit markets and their effects on the global and Mexican economies could adversely affect our business.

Substantial volatility, unavailability of attractive financing and disruptions in the global capital markets since the 2008 financial crisis have had a significant negative impact on financial markets, as well as on the global and domestic economies. Although economic conditions have been slowly improving since 2011 and the availability of credit increased while interest rates remained stable, the recent Eurozone debt crisis has caused, and may continue to cause, disruption in the global financial markets. The recent economic recession, continued economic uncertainty and the slow recovery in Mexico, the United States, Europe and much of the rest of the world has had a negative impact on the hotel industry. The effects of these disruptions and continued general instability are widespread and difficult to quantify or mitigate, and it is impossible to predict the rate at which the global economy will recover. Both our future financial results and growth could be affected if efforts to recover from these economic disruptions slow or reverse. Accordingly, our financial position has been impacted by the economic slowdown, and both our financial results and growth in the future could be further affected if current global economic conditions persist or worsen, resulting in wide-ranging, adverse and prolonged effects on our general business and a material adverse effect on our results of operations and liquidity.

Political, social and other developments in Mexico could affect our business.

Political, social and other developments in Mexico could affect our business. Currently, no single party has an absolute majority in any chamber of the Mexican Federal Congress, which could hamper the legislative progress. The absence of a clear majority and misalignment between the legislature and the administration could result in deadlock and prevent the timely implementation of structural reforms, which in turn could have an adverse effect on the Mexican economy. In addition, Enrique Peña Nieto, a member of the Partido Revolucionario Institucional, or PRI party, was elected as the new president of Mexico in July 2012 and took office on December 1, 2012. This change has triggered significant changes in laws, regulations and governmental policies with respect to key issues such as tax, energy, financial markets, telecommunications and antitrust, which may contribute to economic uncertainty or cause heightened volatility of the Mexican capital markets and securities issued by Mexican companies. These reforms and other changes could have a material adverse effect on our results of operations by, for example, affecting consumer spending in Mexico. We cannot assure you that political developments in Mexico will not have an adverse effect on our business, financial condition or results of operations. Mexican governmental actions concerning the economy could have a significant impact on private sector entities in general and us in particular, as well as on market conditions and prices of, and returns on, Mexican securities. In particular, Mexican authorities have the ability to expropriate assets without consideration and prior to judgment, under certain circumstances, including if the asset has been used for illicit purposes, such as drug trafficking.

Mexico has experienced increased levels of violence related to combating drug trafficking and organized crime in certain cities central to the transportation of drugs into the United States, such as Ciudad Juarez, Reynosa, Nuevo Laredo, Nogales, Monterrey, Durango, Lázaro Cárdenas, Morelia, Tampico and Veracruz, among others. This increase in violence may reach other cities currently not facing this issue. In turn, increase in violence has resulted in a deterioration of the business environment and travel, in certain cities in which we operate, which has affected the occupancy of hotels therein and could have a negative impact on our financial condition and results of operations. The mitigation of such issues is subject to the level of action and decision of federal and local government. There can be no assurance that federal and local government will be capable of mitigating the increased levels of violence and insecurity or that the levels of violence in Mexico will not increase and will not have any additional adverse effects on the Mexican economy or our business.

Furthermore, we are also exposed to natural disasters (such as earthquakes, hurricanes, floods and other unpredictable events), adverse climate conditions or negative conditions produced by third parties (such as strikes, suspension of labor, demonstrations, acts of violence and terrorism) in the Mexican states in which we operate.

Fluctuations in the value of the peso against the U.S. dollar, as well as the reinstatement of exchange controls and restrictions, could adversely affect our financial performance.

Our results of operations are dependent on economic conditions in Mexico, including fluctuating currency rates. Fluctuations in currency rates may adversely affect our ability to acquire assets denominated in other currencies and may also adversely affect the performance of the investments in such assets. Banco de México may from time to time participate in the foreign exchange market to minimize volatility and support an orderly market. Banco de México and the Mexican government have also promoted market-based mechanisms for stabilizing foreign exchange rates and providing liquidity to the exchange market. However, the peso is currently subject to significant fluctuations against the U.S. dollar and may be subject to such fluctuations in the future. Since the second half of 2008, the value of the peso relative to the U.S. dollar has fluctuated significantly. According to Banco de México, during this period the exchange rate registered a low of Ps.9.92 per US$1.00 on August 6, 2008 and a high of Ps.15.37 per US$1.00 on March 3, 2009 and was Ps.13.00 per US$1.00 as of June 30, 2014. Because the shares are denominated in pesos and not in Investment Units (Unidades de Inversión), holders of shares bear the risk of fluctuations in the National Consumer Price Index (Índice Nacional de Precios al Consumidor), which may decrease the acquisition value of pesos received by holders of the shares as distributions.

We will pay distributions to holders of our shares in pesos. Any significant fluctuations in the exchange rates between pesos and U.S. dollars or other currencies could have an adverse impact on the U.S. dollar or other currency-equivalent amounts holders of our shares receive from the conversion. In addition, the amount paid by us in pesos may not be readily convertible into U.S. dollars or other currencies. While the Mexican federal government does not currently restrict, and for many years has not restricted, the ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or other currencies, it has done so in the past and could reinstate exchange controls in the future. Future fluctuations in exchange rates and the effect of any exchange control measures adopted by the Mexican government on the Mexican economy cannot be predicted.

Developments in other countries may adversely affect the Mexican economy, our financial performance and the price of our shares.

The Mexican economy and the market value of Mexican companies may be, to varying degrees, affected by economic and market conditions in other countries. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in other countries may have an adverse effect on the market value of securities of Mexican issuers or of Mexican assets. In past years, for example, prices of debt and equity securities issued by Mexican companies dropped substantially as a result of developments in Russia, Asia and Brazil. The recent global financial crisis also resulted in significant fluctuations in the financial markets and the Mexican economy. There can be no assurance that crises in other countries, such as those currently occurring in Ukraine and Gaza, will not have an adverse effect on the global economy generally and Mexico's economy and capital markets in particular.

Moreover, economic conditions in Mexico are highly correlated with economic conditions in the United States as a result of the North American Free Trade Agreement ("NAFTA") and increased economic activity between the two countries. During the second half of 2008 and part of 2009, the prices of securities issued by entities listed on the BMV decreased significantly, in a manner similar to what took place in markets in the United States and throughout the world. Therefore, adverse economic conditions in the United States, which is still recovering from the 2008 and 2009 financial crisis, the termination of, or modifications to, NAFTA or other related events could have a significant adverse effect on the Mexican economy. In addition, the current European sovereign debt crisis could negatively impact the Mexican economy and global financial markets. We cannot assure you that events in other countries will not adversely affect our financial results.

We are subject to different disclosure and accounting standards than companies in other countries.

A principal objective of the securities laws of the United States, Mexico and other countries is to promote full and fair disclosure of all material corporate information, including accounting information. However, there may be less or different publicly available information about foreign issuers of securities than is regularly published by or about U.S. issuers of listed securities. We are subject to reporting obligations in respect of the shares we have listed on the BMV. The disclosure standards imposed by the BMV may be different than those imposed by securities exchanges in other

countries or regions such as the United States. As a result, the level of information that is available may not correspond to what non-Mexican investors are accustomed to. In addition, accounting standards and disclosure requirements in Mexico differ from those of the United States. In particular, our financial statements are prepared in accordance with IFRS, which differ from U.S. GAAP in a number of respects. Items on the financial statements of a company prepared in accordance with IFRS may not reflect its financial position or results of operations in the way they would be reflected had such financial statements been prepared in accordance with U.S. GAAP.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy.

The Mexican federal government has exercised, and continues to exercise, significant influence over the Mexican economy. Accordingly, Mexican federal governmental actions and policies concerning the economy, state-owned enterprises and state-controlled, -funded or -influenced financial institutions could have a significant impact on private sector entities in general, on us in particular, and on market conditions, prices and returns of Mexican securities. The Mexican federal government occasionally makes significant changes in policies and regulations and may do so again in the future. Actions to control inflation and other regulations and policies have involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency devaluations and capital controls and limits on imports. Tax and labor legislation, in particular, in Mexico is subject to continuous change, and we cannot assure you that the Mexican government will maintain existing political, social, economic or other policies or that such changes would not have a material adverse effect on our financial performance.

It may be difficult to enforce civil liabilities against us or our directors and executive officers.

We are a company formed under the laws of Mexico. Substantially all of the members of our Board of Directors and our officers reside, and substantially all of the assets of such persons are located, in Mexico. Furthermore, substantially all of our assets are located in Mexico. As a result, it may be difficult for you to effect service of process within the United States or in any other jurisdiction outside of Mexico upon these persons or to enforce against them or us in any jurisdiction outside of Mexico judgments predicated upon the laws of any such jurisdiction, including any judgment predicated upon the federal and state securities laws of the United States. There is doubt as to the enforceability, in original actions in Mexican courts or in original actions or actions for enforcement of judgments obtained in courts of jurisdictions outside of Mexico, of civil liabilities under the laws of any jurisdiction outside of Mexico, including any judgment predicated solely upon the federal and state securities laws of the United States. See "Service of Process and Enforcement of Civil Liabilities."

Risks Related to our Shares

An active or liquid market for our shares may not be maintained.

Although our shares are currently listed and trade on the BMV, there can be no assurance that an active trading market for our shares will be maintained or be sufficiently liquid. The Mexican securities markets, including the BMV as the primary trading market, are substantially smaller, less liquid, more volatile, have a lower institutional investor base and are more concentrated than major international securities markets, such as those in the United States. Such market characteristics may substantially limit the capacity of holders of our shares to sell them, or to sell them at the price and time which such holders want to sell them, and this may negatively affect the market price of, and liquidity for our shares. In addition, the BMV operates a system which suspends trading of shares of a particular issuer upon price or volume volatility or changes in the offer or demand for such shares that are not consistent with the historic performance of the shares and cannot be explained solely through information publicly available through BMV systems, pursuant to the CNBV's general regulations.

The market price of our shares may fluctuate significantly, and you could lose all or part of your investment.

Volatility in the market price of our shares may prevent you from being able to sell your shares at or above the price you paid for your shares. The market price and liquidity of the market for our shares may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. Such factors include:

- significant volatility in the market price and trading volume of securities of companies in our sector, which is not necessarily related to the operating performance of these companies;

- investors' perceptions of us and of the industry in which we operate;

- differences between our actual financial and operating results and those expected by investors;

- changes in earnings or variations in results of operations;

- operating performance of companies comparable to us;

- additions or departures of key management personnel;

- announcements by us or our competitors regarding significant agreements or acquisitions;

- new laws or regulations or new interpretations of laws and regulations, including tax guidelines, applicable to our business or shares;

- general trends in the domestic and international economy and financial markets, including due to wars, acts of terrorism or actions taken in response; and

- political developments in Mexico, the United States or other countries.

In addition, the BMV may suspend trading of our shares if the price of our shares (as a percentage of the initial offering price) fluctuates above or below certain levels, or if certain minimum requirements set forth by the Mexican Securities Market Law (*Ley del Mercado de Valores*, or the "LMV") and the General Provisions Applicable to Securities Issuers and other Participants in the Securities Market (*Disposiciones de Carácter general Aplicables a las Emisoras de Valores y a otros Participantes del Mercado de Valores*, or "General Issuers Rules") are not met, including a minimum number of shareholders and periodic filings by us, among others. As a result, holders of our shares could be unable to sell their shares at their desired price or time, or even to sell them at all.

Future offerings of securities with preferred rights over our shares could limit our operational and financial flexibility, adversely affect the market price and dilute the value of our shares.

We may issue debt instruments or incur additional indebtedness in the future with preferred rights over our shares. Such debt instruments and indebtedness could include covenants that may restrict our operational flexibility and limit our ability to distribute dividends to our shareholders. In addition, we may issue convertible or exchangeable securities in the future with preferred rights over our shares, including preferred rights with respect to the payment of dividends or distributions, which could result in a dilution of the value of our shares. Because our decision to offer new debt securities or incur additional indebtedness in the future is dependent upon market conditions and other factors that are outside of our control, we cannot predict or estimate the amount, time or nature of such securities or indebtedness, which could have the effect of reducing the market price of our shares or diluting their value.

Our bylaws include provisions preventing a change of control in the Company, which could have the effect of precluding or delaying a takeover of our Company or otherwise impacting the liquidity of our shares.

Our bylaws contain certain anti-takeover provisions that require: (i) the authorization of the Board of Directors for a third party to acquire our shares, if such acquisition would result in the ownership by such person or group of persons of an amount equal to or greater than 9.99% of our total shares; (ii) once such percentage has been reached, notice to the Board of Directors of any acquisitions that represent an increase in the shares owned by such person or group of persons of 2.0% or more of our total shares; and (iii) the authorization of the Board of Directors (or in certain instances, shareholder approval) for a third party to acquire more than 20.0% of our shares or to take any action that involves a change in control, or for the shareholders to enter into voting agreements involving more than 20.0% of our shares or including the taking of any action that involves a change in control, in which case such acquiror or shareholders are required to make a public tender offer to acquire all of our shares at a certain minimum price. Such actions could dissuade certain potential buyers from making an offer or from successfully obtaining the required

authorization from the Board of Directors (or in certain instances, shareholder approval). Any party that acquires shares in violation of these anti-takeover provisions will not be allowed to exercise the corporate rights related to those shares, notably the right to vote. Furthermore, the Board of Directors may enact the following measures, among others: (i) the reversal of the relevant transactions, with mutual restitution among the parties to the extent possible or (ii) the transfer of the shares that were that subject of the acquisition, to a third party approved by the Board of Directors at a minimum price determined by the Board of Directors. For more information, see "Description of our Capital Stock and Corporate Bylaws—Anti-Takeover Protections."

Our bylaws restrict the ability of non-Mexican shareholders to invoke the protection of their governments with respect to their rights as shareholders.

As required by Mexican law, our bylaws provide that non-Mexican shareholders will be considered to be Mexicans in respect of their ownership interests in us and our exclusive rights, concessions and rights and obligations under agreements executed with the Mexican government. Under this provision, non-Mexican shareholders are deemed to have agreed not to invoke the protection of their own government through such government interposing a diplomatic claim against the Mexican government with respect to the shareholder's rights as a shareholder, but are not deemed to have waived any other rights they may have, including any rights under the U.S. securities laws, with respect to their investment in us. If a non-Mexican shareholder should invoke such governmental protection, its shares could be forfeited in favor of the Mexican government.

The protections afforded to minority shareholders in Mexico are not as comprehensive as those in other jurisdictions such as the United States.

Under Mexican law, the protections afforded to minority shareholders and the fiduciary duties of officers and directors are, in certain respects, not as comprehensive or as developed as those in the United States or other jurisdictions. Although Mexican law allows shareholders to initiate shareholder derivative suits and establishes specific duties of care and loyalty applicable to our officers and directors, the Mexican legal regime concerning fiduciary duties of officers and directors and shareholder derivative lawsuits is not as comprehensive as in other jurisdictions and, to some extent, has not been the subject of judicial interpretation. As a result, it may be more difficult for minority shareholders to enforce their rights against us or our officers and directors than it would be for shareholders of a U.S. or other non-Mexican company.

Preemptive rights may be unavailable to non-Mexican shareholders.

Under current Mexican law, whenever we issue new shares for cash, subject to certain exceptions (including exceptions related to public offerings), we must grant preemptive rights to our then-existing shareholders, giving them the right to purchase a sufficient number of shares to maintain their existing ownership percentage. We may not be able to offer shares to non-Mexican shareholders pursuant to preemptive rights granted to our shareholders in connection with any future issuance of shares, unless we comply with specified requirements established by the laws of the respective non-Mexican shareholders' jurisdictions. In the case of U.S. shareholders, we may not be able to offer them shares pursuant to preemptive rights granted to our shareholders in connection with any future issuance of shares unless a registration statement under the Securities Act is effective with respect to such rights and shares or an exemption from the registration requirements of the Securities Act is available.

We intend to evaluate at the time of any rights offering the costs and potential liabilities associated with filing a registration statement or any similar requirement to enable non-Mexican shareholders to exercise their preemptive rights, the indirect benefits of enabling U.S. shareholders and other non-Mexican shareholders to exercise preemptive rights and any other factors that we may consider appropriate at the time. We will then decide whether to file such a registration statement or fulfill any similar requirement.

In the event that a required registration statement or similar requirement is not filed or satisfied, non-Mexican shareholders may not be able to exercise their preemptive rights in connection with future issuances of our shares. In this event, the economic and voting interest of non-Mexican shareholders in our total equity would decrease in proportion to the size of the issuance. Depending on the price at which our shares are offered, such an issuance could result in dilution to non-Mexican shareholders.

The payment and amount of dividends are subject to the determination of our shareholders.

Our Board of Directors must submit our audited annual consolidated financial statements for the previous fiscal year to our annual general ordinary shareholders' meeting for approval. Once our shareholders approve our audited annual consolidated financial statements, shareholders must allocate net income for the previous fiscal year.

After giving effect to the offering of the shares, our Board of Directors will propose a dividend policy to be approved at our shareholders meeting. As a result of the dividend policy, there may be years in which we do not distribute dividends and other years in which we distribute a substantial portion of our earnings. In the latter situation, our growth potential may be affected. The dividend policy recommended by our Board of Directors may be based on a number of factors, including results of operation, financial position, cash flow requirements, business plans, tax implications, restrictive covenants in our financing terms and other factors that our Board of Directors and shareholders may take into consideration. In any case, under Mexican law we can only pay amounts in respect of full year financials that have been absorbed or paid by shareholders, if losses for prior fiscal years have been recovered and if the applicable payment has been expressly approved by our shareholders.

In addition, under Mexican law, prior to any distribution of dividends, at least 5.0% of our net income must be allocated to a legal reserve fund, until such legal reserve fund is equal to at least 20.0% of our paid-in capital stock. As of June 30, 2014, our legal reserve fund contained approximately Ps.7.2 million, equivalent to 0.2% of our capital stock. Additional amounts may be allocated to other reserve funds as the shareholders may determine, including the amount allocated to a fund for the repurchase of shares. The remaining balance, if any, may be distributed as dividends.

If we issue additional equity securities in the future, you may suffer dilution, and the trading prices for our securities may decline.

We may issue additional shares for financing future acquisitions or new projects or for other general corporate purposes. Our existing shareholders may dispose of some of their shares. Any such issuance or sale could result in a dilution of your ownership stake and/or the perception of any such issuances or sales could have an adverse impact on the market price of the shares.

Dividend distributions to holders of our shares will be made in pesos.

We will make dividend distributions to holders of our shares in pesos. Any significant fluctuations in the exchange rates between pesos and U.S. dollars or other currencies could have an adverse impact on the U.S. dollar or other currency equivalent amounts holders of our shares receive from the conversion. In addition, the amount paid by us in pesos may not be readily convertible into U.S. dollars or other currencies. While the Mexican federal government does not currently restrict the ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or other currencies, the federal government could institute restrictive exchange control policies in the future. Future fluctuations in exchange rates and the effect of any exchange control measures adopted by the Mexican federal government on the Mexican economy cannot be predicted.

We are a holding company, and we depend on the results of operations of our subsidiaries.

We are a holding company with no independent operations or substantial assets apart from the share capital of our operating subsidiaries. As a result, we depend on the results of operations of such subsidiaries, and, to the extent we decide to do so, our ability to pay dividends primarily depends on the ability of our subsidiaries to generate earnings and to pay dividends to us. Each one of these subsidiaries is a distinct legal entity, and, in certain circumstances, contractual and legal restrictions, such as those derived from the financing contracts of our subsidiaries, could limit our capacity to obtain dividends from our subsidiaries. In addition, in conformity with Mexican law, our Mexican subsidiaries can only pay dividends: (i) from retained earnings accounts included in the financial statements approved at a shareholder meeting; (ii) after all the losses from previous fiscal years have been amortized; and (iii) if the subsidiary has increased its legal reserve such that it reaches 5.0% of annual net income (until such legal reserve reaches 20.0% of the share capital of such subsidiary). Any adverse change in the financial situation or in the results of operations of our subsidiaries could affect our financial situation.

USE OF PROCEEDS

The net proceeds to us from the sale of the shares being offered in the global offering will be approximately Ps.2,256.6 million, assuming no exercise of the option to purchase additional shares, after deducting underwriting discounts, commissions and estimated offering expenses.

We intend to use approximately 90% of the net proceeds from the global offering to continue our plans for expanding the number of hotels in our network, including acquiring real estate and land parcels, and the development, opening, operation and marketing of future hotel projects in the areas in which we currently operate, to continue the development of our brands primarily throughout Mexico. In addition, in accordance with our past practice and in the ordinary course of business, we may use these proceeds for future acquisitions of the minority interests in our co-owned hotels that we do not hold, as well as for acquisitions of hotels from third parties in specific regions and under particular circumstances.

We intend to use the remaining approximately 10% of the net proceeds from the global offering to continue to invest in our commercial and distribution platforms and our electronic marketing and room distribution systems, including through investments in digital and electronic systems as well as in technology generally, and for general corporate purposes.

We do not intend to use the proceeds from the global offering to acquire assets other than those acquired in the ordinary course of business, as described above, nor do we intend to prepay any of our debt or liabilities with such proceeds.

CAPITALIZATION

The following table sets forth our historic capitalization as of June 30, 2014 and our capitalization as of June 30, 2014 as adjusted to reflect the receipt of the net proceeds from the sale of the shares in the global offering (assuming no exercise of the overallotment options). You should read this table together with the information under the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements and the notes thereto included elsewhere in this offering memorandum.

The U.S. dollar amounts provided below are translations from Mexican peso amounts, solely for the convenience of the reader at the exchange rate for June 30, 2014, published by Banco de México in the Federal Official Gazette on such date, which was Ps.13.00 per U.S. dollar.

	As of June 30, 2014			
	Actual		As Adjusted	
	Ps.	US$	Ps.	US$
	(in thousands)			
Cash, cash equivalents and restricted cash	1,328,503.4	102,192.6	3,585,135.5	275,779.7
Bank loans and current portion of long-term debt	118,775.2	9,136.6	118,775.2	9,136.6
Other current liabilities	195,464.5	15,035.7	195,464.5	15,035.7
Long-term debt	1,941,259.7	149,327.7	1,941,259.7	149,327.7
Other long-term liabilities	191,673.3	14,744.1	191,673.3	14,744.1
Total long-term liabilities	2,132,933.1	164,071.8	2,132,933.1	164,071.8
Total liabilities	2,447,172.8	188,244.0	2,447,172.8	188,244.1
Total equity attributable to the owners of the entity	4,354,849.2	334,988.4	6,611,481.3	508,575.5
Non-controlling interests	705,400.4	54,261.6	705,400.4	54,261.6
Total equity	5,060,249.6	389,250.0	7,316,881.7	562,837.1
Total liabilities and equity	7,507,422.4	577,494.0	9,764,054.5	751,081.1

The as-adjusted figures assume no exercise of the option to purchase additional shares.

DILUTION

This section includes a description of the amount and percentage of dilution in the global offering as a result of the difference between the offering price per share and net book value per share. The dilution effect is also based on income and net book value per share as a result of the sale of shares in the global offering.

As of June 30, 2014, our net book value per share was Ps.15.83. Net book value per share represents the book value of our total assets minus our total liabilities and non-controlling interests, divided by the number of our shares outstanding. Our pro forma net book value per share as of June 30, 2014 would increase to Ps.17.63 per share, assuming no exercise of the option to purchase additional shares after:

- giving effect to the sale of 100,000,000 shares at an offering price of Ps.23.50 per share; and
- deducting underwriting discounts and commissions and estimated offering expenses to be owed and payable by us in connection with the global offering.

This amount represents an immediate increase of Ps.1.80 in net book value per share to our existing shareholders and an immediate dilution of Ps.5.87 in net book value per share to new investors purchasing shares at an offering price of Ps.23.50 per share.

The following table illustrates the dilution in net book value per share, assuming no exercise of the option to purchase additional shares:

	Per Share
	(Ps.)
Offering price	23.50
Net book value before the global offering	15.83
Increase in net book value attributable to the sale of shares	1.80
Net book value after the global offering	17.63
Dilution in net book value	5.87

For the six months ended June 30, 2014, our consolidated net income per share was Ps.0.17. Giving effect to a base offering of 100,000,000 shares, our consolidated net income per share would have been Ps.0.12 for the period. This represents a decrease of 26.7% in our consolidated net income per share for such period.

In May 2013, certain of our officers executed share subscription agreements to acquire our shares (the "Share Subscription Agreements"). Pursuant to such Share Subscription Agreements, these officers have subscribed to an aggregate total of 6,517,092 of our shares, of which, pursuant to the terms of the Share Subscription Agreements, some have been paid in full and others have been partially paid for. The shares subject to these Share Subscription Agreements have been deposited in a management trust incorporated under the laws of Mexico. For more information see "Management and Corporate Governance—Share Subscription Agreements."

DIVIDENDS AND DIVIDEND POLICY

We have not declared dividends in the past and do not anticipate paying dividends in the immediately foreseeable future since we intend to invest our earnings in order to support our growth strategy.

Under the Mexican Corporations Law (*Ley General de Sociedades Mercantiles*, or "LGSM"), the distribution of profits can only be made after the financial statements that contain them have been duly approved by our shareholders. There can be no distribution of profits unless any losses from previous fiscal years have otherwise been recovered or absorbed or our capital stock has been decreased. The declaration, amount and payment of dividends must be approved by the majority vote of our shareholders present at a shareholders' meeting. In general, the declaration of dividends is based on a recommendation of our Board of Directors, although such recommendation is not legally required. In addition, prior to any distribution of dividends, we are required to allocate 5.0% of our net income to a legal reserve fund until such legal reserve fund equals 20.0% of our capital stock and losses for prior fiscal years have been repaid or absorbed. Such legal reserve must be replenished if it is reduced for any reason.

For additional information regarding taxation of dividends, see "Taxation—Mexican Tax Considerations—Payment of Dividends" and "Taxation—Certain U.S. Federal Income Tax Considerations—Taxation of Dividends."

EXCHANGE RATES

On December 21, 1994, Banco de México implemented a floating foreign exchange rate regime under which the peso is allowed to float freely against the U.S. dollar and other foreign currencies. Banco de México typically intervenes directly in the foreign exchange market only to reduce what it deems to be excessive short-term volatility. Since mid-2003, Banco de México has been conducting auctions of U.S. dollars in an attempt to reduce the levels of its foreign reserves. Banco de México conducts open market operations on a regular basis to adjust the size of Mexico's monetary base. Changes in Mexico's monetary base have an impact on the exchange rate. Banco de México may increase or decrease the reserve of funds that financial institutions are required to maintain. If the reserve requirement is increased, financial institutions are required to allocate more funds to their reserves, which will in turn reduce the amount of funds available for operations. This causes the amount of available funds in the market to decrease and the cost, or interest rate, to obtain funds to increase. The opposite happens if reserve requirements are lowered. This mechanism, known as "short" or "long," as the case may be, or more formally "the daily settlement balance target," represents a mechanism used by Banco de México to adjust the monetary base and the level of interest rates.

We cannot assure you that Banco de México will maintain its current policies with respect to the peso or that the peso will not depreciate significantly in the future. Additionally, in the event of a shortage of foreign currency, we cannot assure you that foreign currency would continue to be available to private sector companies or that foreign currency needed by us to service foreign currency obligations, if any, would continue to be available without substantial additional cost.

The following table sets forth, for the periods indicated, the high, low, average and period-end, free-market exchange rate expressed in pesos per U.S. dollar. The data provided in this table are based on the rate applicable to the payment of foreign currency-denominated obligations in Mexico (*Tipo de Cambio para Solventar Obligaciones Denominadas en Moneda Extranjera Pagaderas en la República Mexicana*), published by Banco de México in the Official Gazette. We have not restated the rates in constant currency units. No representation is made that the peso amounts referred to in this offering memorandum could have been or could be converted into U.S. dollars at any particular rate or at all.

	Exchange Rate (Ps. per US$)			
Years Ended December 31,	**Low**	**High**	**Average**	**Period- End**
2009	12.60	15.37	13.50	13.04
2010	12.16	13.18	12.63	12.38
2011	11.50	14.24	12.42	13.98
2012	12.63	14.39	13.17	12.99
2013	11.98	13.44	12.77	13.07
Month Ended				
January 31, 2014	12.99	13.21	13.21	13.32
February 28, 2014	13.19	13.39	13.29	13.31
March 31, 2014	13.08	13.32	13.20	13.08
April 30, 2014	12.96	13.14	13.07	13.10
May 31, 2014	12.85	13.09	12.94	12.85
June 30, 2014	12.86	13.10	12.99	13.00
July 31, 2014	12.93	13.14	12.98	13.14
August 31, 2014	13.05	13.27	13.15	13.11
September 30, 2014	13.08	13.49	13.22	13.49

Source: Banco de México

THE MEXICAN SECURITIES MARKET

The information concerning the Mexican securities market set forth below has been prepared based on materials obtained from public sources, including the CNBV, the Mexican Stock Exchange or the BMV, Banco de México and information made public by market participants. The following summary does not purport to be a comprehensive description of all of the material aspects related to the Mexican securities market and its regulations.

Price History of Our Shares

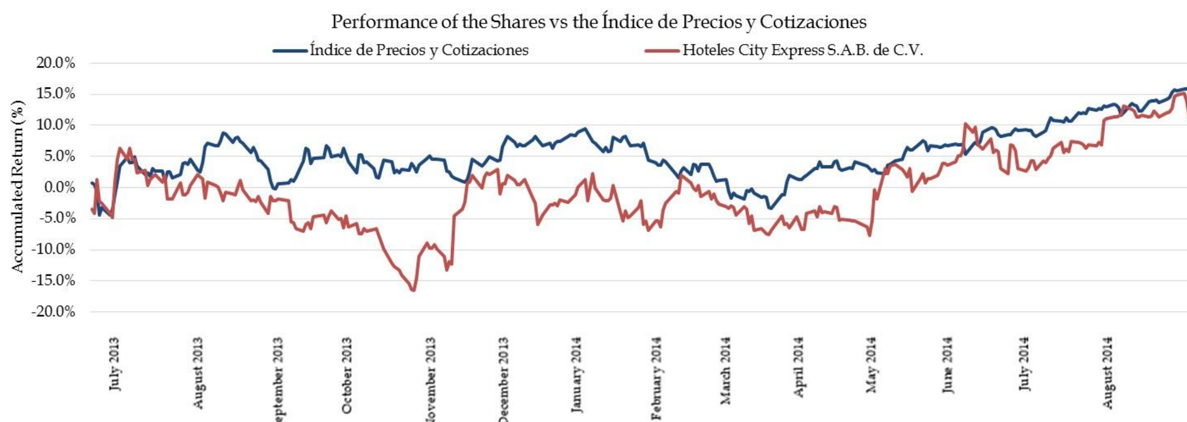
The following tables set forth the price history of our shares for the periods indicated since they began trading on the BMV on June 13, 2013:

BMV information for 2013 and the first eight months of 2014	2013	January 1 to August 31, 2014
	(Ps.)	
Maximum price	23.90	25.87
Minimum price	18.75	20.75
Average price	21.77	22.93
Average daily volume	448,276	268,441

BMV information for the first and second halves of 2013 and 2014	June 14 to June 30, 2013	July 1 to December 31, 2013	January 1 to June 30, 2014	July 1 to August 31, 2014
		(Ps.)		
Maximum price	23.88	23.90	24.77	25.87
Minimum price	21.39	18.75	20.75	23.38
Average price	22.30	21.72	22.29	24.71
Average daily volume	2,934,378	232,944	214,292	25

Monthly BMV information for 2014	January	February	March	April
		(Ps.)		
Maximum price	22.97	22.90	21.78	23.24
Minimum price	20.93	21.48	20.76	20.75
Average price	21.71	22.19	21.19	21.74
Average daily volume	130,295	207,479	115,984	137,026

Monthly BMV information for 2014	May	June	July	August
		(Ps.)		
Maximum price	24.77	24.66	25.11	25.87
Minimum price	22.32	22.98	23.38	25.01
Average price	23.19	23.68	24.18	25.29
Average daily volume	471,276	206,253	140,536	471,820



As of the date of this offering memorandum, trading of our shares on the BMV has never been suspended since they began trading in June 2013. On August 19, 2014, the BMV announced that our shares were among the stocks eligible for inclusion in the *Índice de Precios y Cotizaciones*, the principal stock index of the BMV, based on information available as of the end of July 2014.

Our most recent annual shareholders meeting took place on April 23, 2014. Approximately 552 shareholders were in attendance, representing a quorum of 85.2%.

Trading on the BMV

The BMV, located in Mexico City, is the only stock exchange in Mexico. Operating continuously since 1907, the BMV is organized as a variable capital public stock corporation, or *sociedad anónima bursátil de capital variable*. Securities trading on the BMV occurs each business day from 8:30 a.m. to 3:00 p.m., Mexico City time, subject to adjustments to operate uniformly with certain stock markets in the United States.

Since January 1999, all trading on the BMV has been electronic. The BMV may impose a number of measures to promote an orderly and transparent trading price of securities, including the operation of a system of automatic suspension of trading in shares of a particular issuer, when price fluctuations exceed certain limits.

Settlement on the BMV is effected three business days after a share transaction. Deferred settlement is not permitted without the approval of the BMV, even where it is mutually agreed between the market participants. Most securities traded on the BMV, including our shares when traded, are on deposit in book-entry form though the facilities of Indeval, a securities depositary owned by the BMV that acts as a clearinghouse, depositary and custodian, as well as a settlement, transfer and registration agent for BMV transactions, eliminating the need for physical transfer of securities.

Transactions must be settled in pesos except under limited circumstances in which a settlement in foreign currencies may be permitted. Although the Mexican Securities Market Law (*Ley del Mercado de Valores*, or "LMV") provides for the existence of an over-the-counter market, no such market for securities in Mexico has formally developed.

The LMV provides that foreign-issued securities may be traded by brokerage firms and lending institutions through the International Trading System (*Sistema Internacional de Cotizaciones*, or "SIC"). These securities may be listed through the SIC if: (i) they are not already registered with the RNV; (ii) the market of origin or the company issuing the shares has received, based on their characteristics, recognition from the CNBV; (iii) the securities are listed on the applicable exchange and are publicly distributed in the applicable market; and (iv) assurances are given to the effect that periodic reports will be provided to the BMV.

In addition, the BMV operates a system which suspends trading of shares of a particular issuer upon price or volume volatility or changes in the offer or demand for such shares that are not consistent with the historic performance of the shares and cannot be explained solely through information publicly available through BMV systems, pursuant to the CNBV's general regulations.

The LMV includes appropriate placement exemptions pursuant to which foreign securities may be sold to institutional and accredited investors without registration with the RNV.

Market Regulation and Registration Standards

In 1925, the Mexican Banking Commission (*Comisión Nacional Bancaria*) was established to regulate banking activity, and in 1946, the Mexican Securities Commission (*Comisión Nacional de Valores*) was established to regulate stock market activity. In 1995, these two entities were merged to form the CNBV.

Among other things, the CNBV regulates the public offering and trading of securities and participants in the Mexican securities market and imposes sanctions for the illegal use of insider information and other violations of the LMV. The CNBV regulates the Mexican securities market, the BMV and brokerage firms through its staff and a board of governors comprised of thirteen members.

Mexican Securities Market Law

On December 30, 2005, the current LMV was enacted and published in the Official Gazette; it became effective on June 28, 2006. The LMV changed the Mexican securities' regulation in various material aspects. The reforms introduced by this law were intended to update the Mexican regulatory framework applicable to the securities market and publicly traded companies, as compared to international standards. Publicly traded companies are regulated by the LMV and, secondarily, by the Mexican General Corporations Law. The LMV is supplemented by certain regulations issued by the CNBV. See "—Regulations Applicable to Issuers, Brokerage Firms and Other Market Participants."

On January 10, 2014, a decree was published in the Official Gazette which amended 34 financial laws, including the Mexican Securities Market Law (the "Financial Reform"). Except for a few articles relating to insider trading and policies that certain entities must implement relating to insider trading, amendments to the Securities Market Act went into force on January 13, 2014. Additionally, some regulated entities such as brokerage firms and investment advisers were given terms ranging from 6 months to 1 year to conform to certain requirements contained in the Financial Reform.

The LMV: (i) establishes that public entities and the entities controlled by them are considered a single economic unit (*e.g.*, holding companies and wholly owned subsidiaries); (ii) clarifies the rules for tender offers, dividing them into voluntary and mandatory categories; (iii) clarifies standards for disclosure of holdings of shareholders of public companies; (iv) expands and strengthens the role of the board of directors of public companies, including by requiring independent directors; (v) defines the standards applicable to the board of directors and the duties of the board, each director, its secretary, the chief executive officer and other executive officers (introducing concepts such as the duty of care, duty of loyalty and safe harbors); (vi) replaces the statutory auditor (*comisario*) and its duties with an audit committee, a corporate practices committee and external auditors; (vii) defines the roles and responsibilities of executive officers; (viii) improves the rights of minority shareholders relating to legal remedies and access to company information; (ix) introduces concepts such as consortiums, groups of related persons or entities, control, related parties and decision-making power; (x) expands the definition of applicable sanctions for violations of the LMV, including punitive damages and criminal penalties; (xi) clarifies rules relating to types of equity securities that may be offered by public companies; (xii) sets forth rules for share repurchases; and (xiii) specifies requirements for anti-takeover measures.

Under the LMV, public companies must have a board of directors comprised of no more than 21 members, of which at least 25% must be independent. Independent members must be selected at the issuer's general ordinary shareholders' meeting based on their experience, ability and reputation, among other factors. The conclusion as to whether a director is independent must be determined by the issuer's shareholders, and such determination may be challenged by the CNBV. Departing from legislative precedents, the LMV permits then-acting members of the board of directors, under certain circumstances, to appoint, on a temporary basis, new members of the board of directors.

The board of directors of a public company is required to meet at least four times during each calendar year. Its principal duties are: (i) the determination of the issuer's general business strategies; (ii) the approval of guidelines for the use of corporate assets; (iii) the approval, on an individual basis, of transactions with related parties, subject to certain limited exceptions; (iv) the approval of unusual or non-recurring transactions and any transaction related to the acquisition or sale of assets with a value equal to or exceeding 5.0% of the issuer's consolidated assets, or the granting of collateral or guarantees, or the assumption of liabilities, equal to or exceeding 5.0% of the issuer's consolidated assets; (v) the appointment or removal of the chief executive officer; (vi) the approval of accounting and internal control policies; and (vii) the approval of policies for disclosure of information. Directors are required to seek the best interests of the issuer and may not favor any shareholder or group of shareholders.

The LMV requires the creation of two committees, the audit and the corporate practices committees. These committees must consist of at least three members appointed by the board of directors, and each member must be independent (except for corporations controlled by a person or group holding 50.0% or more of the outstanding capital stock, in which case only the majority of the members of the committee in charge of the corporate practices functions must be independent).

The committee entrusted with the audit function is responsible, among other things, for: (i) providing opinions to the board of directors with respect to internal control guidelines, accounting policies, financial statements and the engagement of outside auditors; (ii) evaluating outside auditors and analyzing their reports; (iii) analyzing and supervising the preparation of financial statements; (iv) informing the board regarding internal controls and their adequacy; (v) assisting the board in the preparation of annual reports and other reporting obligations; (vi) investigating non-compliance with operating and accounting guidelines and policies or with the internal control system; (vii) informing the board of any irregularities that it may encounter; (viii) calling shareholders' meetings; (ix) supervising compliance by the chief executive officer with shareholders' and board of directors' resolutions; and (x) verifying the implementation of internal control mechanisms.

The principal responsibilities of the committee in charge of the corporate practices function are: providing opinions on related party transactions and other material transactions, as well as engaging and obtaining opinions from independent third-party experts in respect of such transactions; calling shareholders' meetings; assisting the board in the preparation of annual reports and other reporting requirements and making nominating and compensation proposals to the board.

The LMV imposes a duty of care and a duty of loyalty on directors.

The duty of care generally requires that directors obtain sufficient information and be sufficiently prepared to support their decisions and to act in the best interests of the issuer. The duty of care is principally discharged by a director by requesting and obtaining from the issuer or officers of the issuer, as the case may be, all information that may be necessary to participate in discussions requiring the presence of such director, by requesting and obtaining information from third-party experts, by attending board meetings and by disclosing material information in possession of such director. Failure of directors to act with due care makes the relevant directors jointly and severally liable for damages and losses caused to the issuer and its subsidiaries. Liability for breach of the duty of care may be limited by the company's bylaws or by resolution of a shareholders' meeting, except in the case of bad faith, willful misconduct or illegal acts. Such liability may also be covered by indemnification provisions and director and officer insurance policies.

The duty of loyalty primarily consists of maintaining the confidentiality of information received in connection with the performance of the director's duties and abstaining from discussing or voting on matters where the director has a conflict of interest. In addition, the duty of loyalty is violated if a shareholder or group of shareholders is knowingly favored or if, without the express approval of the board of directors, a director takes advantage of a corporate opportunity. The duty of loyalty also implies not disclosing information that is false or misleading or omitting to register any such information in the issuer's corporate books and records. The violation of the duty of loyalty makes the relevant directors jointly and severally liable for damages and losses caused to the issuer and its subsidiaries. This liability also arises if damages and losses are sustained as a result of benefits wrongfully obtained by the director or directors or third parties as a result of activities carried out by the breaching directors. Liability for breach of the duty of loyalty may not be limited by the company's bylaws, by resolution of a shareholders' meeting or otherwise. The duty of loyalty is also breached if the director uses corporate assets or approves the use of corporate assets in violation of an issuer's policies, discloses false or misleading information, orders, or causes, an incorrect

entry of any transaction in an issuer's records that could affect its financial statements or causes material information not to be disclosed or to be modified.

Liability for breach of the duty of care or the duty of loyalty may be exercised solely for the benefit of the issuer (as a derivative suit) and may only be exercised by the issuer or by shareholders representing at least 5.0% of such issuer's outstanding capital stock. The directors of the issuer that are subject to criminal action may face up to 12 years' imprisonment for certain illegal acts involving willful misconduct that result in losses to the issuer. Such acts include the alteration of financial statements and records.

As a safe-harbor for directors, the liability discussed above does not arise if the director acted in good faith and: (i) complied with applicable law and the bylaws of the issuer; (ii) made the decision based upon information provided by officers, external auditors or third party experts, the capacity and credibility of which were not the subject of reasonable doubt; (iii) selected the most appropriate alternative in good faith and any negative effects of such decision were not reasonably foreseeable; and (iv) actions were taken in compliance with resolutions adopted at the shareholders' meeting.

The issuer's principal executives are also required, under the LMV, to act for the benefit of the issuer and not for the benefit of any shareholder or group of shareholders. These executives are required to submit the major business strategies to the board of directors for approval, to submit proposals for internal controls to the audit committee, to disclose all material information to the public and to maintain adequate accounting and registration systems and mechanisms for internal control.

The LMV also requires that any transaction or series of transactions that represent 20.0% or more of the consolidated assets of a public issuer during any fiscal year be approved at a shareholders' meeting

In addition to the rights granted to minority shareholders representing 5.0% or more of the outstanding shares of a public company, in order to initiate a shareholder derivative suit for the benefit of the issuer in an amount equal to the damages or losses incurred by the issuer against directors for a breach of the duties of care or loyalty, the LMV sets forth the right of shareholders representing 10.0% of the outstanding voting shares to appoint a director, call a shareholders' meeting and request that the vote on resolutions in respect of which they were not sufficiently informed be postponed. Also, holders of 20.0% of the outstanding voting shares may judicially oppose resolutions that were passed by a shareholders' meeting and file a petition for a court order to suspend the resolution, if the claim is filed within 15 days following the adjournment of the meeting at which the action was taken, provided that: (i) the challenged resolution violates Mexican law or the company's bylaws; (ii) the opposing stockholders either did not attend the meeting or voted against the challenged resolution; and (iii) the opposing stockholders deliver a bond to the court to secure payment of any damages that we may suffer as a result of suspending the resolution in the event that the court ultimately rules against the opposing stockholder. These provisions have seldom been invoked in Mexico, and, as a result, any action that may be taken by a competent court is uncertain.

Limited or Non-voting Shares

The LMV does not permit issuers to implement mechanisms for common shares and limited or non-voting shares to be bundled or jointly traded or offered to public investors, unless the limited or non-voting shares are convertible into common shares within a term of up to five years or when, as a result of the nationality of the holder, the shares or the securities representing the shares limit the right to vote to comply with foreign investment laws. In addition, the aggregate amount of the shares with limited or non-voting rights may not exceed 25.0% of the aggregate amount of shares deemed as publicly held. The CNBV may increase this 25.0% limit, provided that the limited or non-voting shares exceeding 25.0% of the aggregate amount of publicly held shares are convertible into common shares within five years of their issuance.

Disclosure of Shareholders' Agreements

Any shareholders' agreements containing non-compete clauses, any agreements related to the sale, transfer or exercise of preemptive rights (as set forth under article 132 of the LGSM) and any agreements which allow for the sale and purchase of shares, voting rights and sale of shares in a public offering, must be notified to the issuer within five business days following their execution to allow the issuer to disclose such agreements to the investors through the stock exchanges on which its securities are being traded and to be made public in an annual report prepared by the

issuer. These agreements: (i) will be available for the public to review at the issuer's offices; (ii) will not be enforceable against the issuer and a breach of such agreements will not affect the validity of the vote at a shareholders' meetings; and (iii) will only be effective between the parties once they have been disclosed to the public.

Regulations Applicable to Issuers, Brokerage Firms and Other Market Participants

In March 2003, the CNBV issued general regulations, the General Issuers Rules that are applicable to issuers and other market participants (*Disposiciones de Carácter General Aplicables a las Emisoras de Valores y a otros Participantes del Mercado de Valores*), which have been amended from time to time since such date, and most recently on June 17, 2014. The General Issuers Rules, which repealed several previously enacted CNBV regulations (*circulares*), now provide a single set of rules governing issuers and issuer activity, among other things. In September 2006, these general regulations were amended to give effect to the provisions of the then recently enacted LMV.

In addition, in September 2004, the CNBV issued general rules applicable to brokerage firms, the Rules for Brokerage Firms (*Disposiciones de Carácter General Aplicables a Casas de Bolsa*), which have been amended from time to time, and most recently on June 30, 2014. The Rules for Brokerage Firms now provide a single set of rules governing participation of Mexican underwriters in public offerings, among other things.

Registration and Listing Standards

To offer securities to the public in Mexico, an issuer must meet specific qualitative and quantitative requirements. In addition, only securities that have been registered with the RNV pursuant to the CNBV's approval may be listed on the BMV, other than unregistered securities listed on the SIC, which may also be traded on the BMV.

The CNBV's approval for registration does not imply any kind of certification or assurance related to the investment quality of the securities, the solvency of the issuer or the accuracy or completeness of any information delivered to the CNBV, nor does such registration ratify or validate acts or omissions, if any, undertaken in contravention of applicable law. The General Issuers Rules provide that the BMV must adopt minimum requirements for issuers to list and to maintain their securities in Mexico. These requirements relate to matters such as operating history, financial and capital structure, minimum public floats, minimum number of holders and corporate governance among others. The CNBV may waive some of these requirements in certain circumstances. In addition, some of the requirements are applicable to each series of shares of the relevant issuer.

The BMV will review compliance with the foregoing requirements and other requirements on an annual, semi-annual and quarterly basis, provided it may also review compliance at any other time.

The BMV must inform the CNBV of the results of its review, and this information must, in turn, be disclosed to investors. If an issuer fails to comply with any of the foregoing requirements, the BMV will request that the issuer propose a plan to comply with such requirements. If the issuer fails to propose a plan, if the plan is not satisfactory to the BMV or if an issuer does not make substantial progress with respect to the corrective measures, trading of the relevant series of shares on the BMV may be temporarily suspended. In addition, if an issuer fails to propose a plan or ceases to follow the plan once proposed, the CNBV may cancel the registration of the shares, in which case the majority shareholder or any controlling group must carry out a tender offer to acquire all of the outstanding shares of the issuer in accordance with the tender offer rules discussed below.

Reporting Obligations

Issuers of listed securities in Mexico are required to file unaudited quarterly financial statements and audited annual financial statements, as well as various periodic reports with the CNBV and the BMV. Mexican issuers of listed securities must file the following reports with the CNBV:

- an annual report prepared in accordance with the CNBV's general regulations by no later than April 30 of each year;
- quarterly reports within 20 business days following the end of each of the first three quarters and 40 business days following the end of the fourth quarter;

- reports disclosing material events promptly upon their occurrence;
- reports regarding corporate restructurings such as mergers, acquisitions, splits or asset sales approved at shareholders' meetings or by the board of directors;
- reports regarding the policies and guidelines with respect of the use of the company's (or its subsidiaries') assets by "related persons"; and
- details dealing with agreements among shareholders.

Pursuant to the CNBV's General Issuers Rules, the internal rules of the BMV were amended to implement an automated electronic information transfer system for information required to be filed with the BMV. Issuers of listed securities must prepare and disclose their financial information and any other required information via a BMV-approved electronic financial information system (the *Sistema Electrónico de Comunicación con Emisoras de Valores*, or "EMISNET"). Immediately upon its receipt, the BMV makes the financial information or other information that was submitted via EMISNET by the issuer available to the public.

The CNBV's General Issuers Rules and the rules of the BMV require issuers of listed securities to file and disclose material events and information (*eventos relevantes*) through EMISNET that relate to any act, event or circumstance that could influence an issuer's share price and investors' decisions to acquire stock. If listed securities experience unusual price volatility or if there is any third party information available to the public with respect to such issuer that may affect the price of its securities, the BMV will immediately request that the issuer inform the public as to the causes of the volatility or, if the issuer is unaware of the causes, that the issuer make a statement to that effect and/or the accuracy of the third party information publicly available. In addition, the BMV may immediately request that the issuer disclose any information relating to relevant material events when it deems the information currently disclosed to be insufficient, as well as instruct the issuer to clarify the information when necessary. The BMV may request that issuers confirm or deny any material events that have been disclosed to the public by third parties when it deems that the material event may affect or influence the securities being traded. The BMV must immediately inform the CNBV of any such requests.

In addition, the CNBV may also make any of these requests directly to issuers. An issuer may defer the disclosure of material events under some circumstances, as long as:

- the issuer maintains adequate confidentiality measures (including maintaining records of persons or entities in possession of material non-public information);
- the information is related to transactions that have not been completed;
- there is no misleading public information relating to the material event; and
- no unusual price or volume fluctuation occurs.

Similarly, if an issuer's securities are traded on both the BMV and a foreign securities exchange, the issuer must simultaneously file the information that it is required to file pursuant to the laws and regulations of the foreign jurisdiction with the CNBV and the BMV and vice versa.

Suspension of Trading

Under its internal regulations, the BMV may suspend trading in the shares of a particular issuer as a result of:

- failure to disclose material events;
- unusual price or volume fluctuations;
- failure by the issuer to timely or adequately comply with its reporting obligations; or

- significant exceptions or comments contained in the auditors' opinion of the issuer's financial statements, or determinations that such financial statements were not prepared in accordance with the applicable accounting procedures and policies.

In cases where an issuer's shares are traded simultaneously on other stock exchanges outside of Mexico, the BMV may consider the measures adopted by such other stock exchanges in order to suspend and/or resume trading in the issuer's shares.

In addition to the authority of the BMV under its internal regulations as described above, the CNBV and the BMV may, pursuant to the rules of the CNBV, suspend trading of an issuer's shares:

- if the issuer does not disclose a material event or if the disclosed information is not sufficiently clear; or

- upon price or volume volatility or changes in the offer or demand for such shares that are not consistent with their historic performance and cannot be explained solely through information made publicly available pursuant to the CNBV's general regulations.

The BMV must immediately inform the CNBV and the general public of any such suspension. An issuer may request that the CNBV or the BMV resume trading, provided that the issuer demonstrates that the causes triggering the suspension have been resolved and, if applicable, that it is in full compliance with the periodic reporting requirements under applicable law. The BMV may reinstate trading in suspended shares when: (i) it deems that the material events have been adequately disclosed to investors; (ii) it deems that the issuer has adequately explained the reasons for the changes in offer and demand, volume traded, or prevailing share price; or (iii) the events affecting the share prices have ceased to exist. If an issuer's request has been granted, the BMV will determine the appropriate mechanism to resume trading. If trading of an issuer's securities is suspended for more than 20 business days and the issuer is authorized to resume trading without conducting a public offering, the issuer must disclose via EMISNET the causes that resulted in the suspension and reasons why it is now authorized to resume trading, before trading may resume.

Under current regulations, the BMV may consider the measures adopted by other non-Mexican stock exchanges to suspend and/or resume trading of an issuer's shares in cases where the relevant securities are simultaneously traded on stock exchanges located outside of Mexico.

Insider Trading, Trading Restrictions and Disclosure Requirements

The LMV contains specific regulations regarding insider trading, including the requirement that persons in possession of information deemed privileged abstain: (i) from trading, directly or indirectly, in any relevant issuer's securities, including options and derivatives of the underlying security issued by such issuer, whose trading price could be affected by such information; (ii) from making recommendations or providing advice to third parties to trade in such securities; and (iii) from disclosing or communicating such privileged information to third parties (except for those entitled to such information due to their role or employment position).

Pursuant to the LMV, the following persons must notify the CNBV of any transactions undertaken as they relate to a listed issuer's stock:

- members of a listed issuer's board of directors;

- shareholders controlling 10.0% or more of a listed issuer's outstanding share capital;

- groups controlling 25.0% or more of a listed issuer's outstanding share capital; and

- other insiders, such as executive officers and agents with authority to act for the issuers, among others.

In addition, under the LMV, insiders must abstain from purchasing or selling securities of the issuer within 90 days from the last sale or purchase, respectively.

Subject to certain exceptions, any acquisition of a public company's shares that results in the acquirer owning 10.0% or more, but less than 30.0%, of an issuer's outstanding share capital must be publicly disclosed to the CNBV and the BMV by no later than one business day following the acquisition.

Any acquisition by an insider that results in the insider holding an additional 5.0% or more of a public company's outstanding share capital must also be publicly disclosed to the CNBV and the BMV no later than one business day following the acquisition. Some insiders must also notify the CNBV of share purchases or sales that occur within any three-month or five-day period and that exceed certain value thresholds. The LMV requires that convertible securities, warrants and derivatives to be settled in kind be taken into account in the calculation of share ownership percentages.

Tender Offers

The LMV contains provisions relating to public tender offers in Mexico. According to the LMV, tender offers may be voluntary or mandatory. Both are subject to the prior approval of the CNBV and must comply with general legal and regulatory requirements. Any intended acquisition of a public company's shares that results in the buyer owning, directly or indirectly, 30.0% or more of such issuer's outstanding shares that are registered with the RNV, whether through or outside any stock exchange, through one or more transactions of any nature, concurrent or successive, requires the buyer to make a mandatory tender offer for the greater of (i) the percentage of the share capital intended to be acquired or (ii) 10.0% of the company's outstanding capital stock, provided that the buyer's aggregate share ownership does not result in it gaining control of the issuer. Finally, any acquisition of a public company's shares that is intended to obtain voting control requires the potential buyer to make a mandatory tender offer for 100.0% of the company's outstanding capital stock (however, under certain circumstances, the CNBV may permit an offer for less than 100.0%). Any tender offer must be made at the same price to all shareholders and classes of shares. The board of directors, with the advice of the audit committee, must issue its opinion of any tender offer resulting in a change of control, which opinion must take minority shareholder rights into account and which may be accompanied by an independent fairness opinion.

Under the LMV, all tender offers must be open for at least 20 business days and purchases thereunder are required to be made pro rata to all tendering shareholders. The LMV also permits the payment of certain amounts to controlling shareholders over and above the offering price if these amounts are fully disclosed, approved by the board of directors and paid in connection with non-compete or similar obligations of such controlling shareholders. The LMV also provides exceptions to the mandatory tender offer requirements and specifically sets forth remedies for non-compliance with tender offer rules (*e.g.*, suspension of voting rights and possible annulment of purchases, among others) and other rights available to former shareholders of the issuer.

The LMV also requires that convertible securities, warrants and derivatives that can be settled in kind representing underlying securities be taken into account in the calculation of the individual or group of individuals that, directly or indirectly, intends to acquire shares of a company.

Anti-Takeover Protections

The LMV provides that public companies may include anti-takeover provisions in their bylaws if such provisions: (i) are approved by a majority of the shareholders, without shareholders representing 5.0% or more of the capital stock present at the meeting voting against such provision; (ii) do not exclude any shareholders or group of shareholders; (iii) do not restrict, in an absolute manner, a change of control; and (iv) do not contravene legal provisions related to tender offers or have the effect of disregarding the economic rights related to the shares held by the acquiring party.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables present selected financial and operating information for the periods presented. The selected financial information is derived from our Audited Financial Statements and our Interim Financial Statements. These tables should be read together with "Presentation of Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements included elsewhere in this offering memorandum. Our Audited Financial Statements and our Interim Financial Statements have been prepared in accordance with IFRS.

Our Financial Statements and other financial information included in this offering memorandum, unless otherwise specified, are stated in Mexican pesos. The U.S. dollar amounts provided below are translations from the Mexican peso amounts, solely for the convenience of the reader. See "Presentation of Financial and Other Information—Currency Information" for an explanation of the exchange rates used to translate Mexican peso amounts into U.S. dollars. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated or at any other rate.

	For the Six Months Ended June 30,			For the Year Ended December 31,		
	2014	2014	2013	2013	2012	2011
	(thousands of US$)	(thousands of Ps.)		(thousands of Ps.)		
Consolidated statements of income data						
Revenues from hotel operation	47,340.4	615,425.0	487,553.5	1,055,702.7	890,715.7	686,767.1
Revenues from hotel management	2,616.4	34,013.8	21,902.0	48,252.9	41,487.6	28,280.9
Total	49,956.8	649,438.8	509,455.5	1,103,955.6	932,203.3	715,048.0
Hotel operating costs and expenses	25,828.0	335,764.1	272,976.6	569,704.6	502,353.3	409,821.0
Selling and administrative expenses	7,903.2	102,741.7	81,155.8	177,174.4	147,540.8	113,155.0
Depreciation	7,798.2	101,377.1	75,666.3	163,662.6	144,498.5	107,750.8
Cost and expenses	41,529.4	539,882.9	429,798.7	910,541.6	794,392.6	630,726.8
Expenses associated with opening of new hotels	515.8	6,706.0	5,812.7	15,967.4	12,277.6	13,527.4
Other (income) expenses	-	-	(1,313.7)	(1,119.4)	2,594.1	2,380.1
Consolidated operating income	7,911.6	102,849.9	75,157.8	178,566.0	122,939.0	68,413.7
Finance costs	(4,455.1)	(57,916.4)	(49,968.5)	(106,241.4)	(97,480.6)	(81,348.6)
Finance income	1,630.2	21,192.1	10,325.6	38,189.7	17,264.6	13,186.0
Exchange result, net	(436.6)	(5,675.8)	(744.1)	(2,245.9)	(10,137.5)	14,794.7
Effects of valuation of financial instruments	49.2	639.8	1,273.8	2,355.3	(1,435.3)	1,701.1
Other financial costs	-	-	(722.1)	(8,136.8)	-	-
Income before tax	4,699.3	61,089.6	35,322.5	102,487.2	31,150.1	16,746.8
Income tax expense	939.8	12,217.9	7,064.5	18,754.1	5,557.8	6,743.8
Consolidated net income	**3,759.5**	**48,871.7**	**28,258.0**	**83,733.1**	**25,592.3**	**10,003.0**
Earnings per share	0.0128	0.1666	0.1462	0.3087	0.1295	0.1160
Weighted average number of shares outstanding	275,111,459	275,111,459	193,740,819	235,105,984	185,254,311	185,254,311

Note: For comparison purposes, the weighted average number of shares outstanding for the years ended December 31, 2011 and 2012 reflect the effectiveness of the three for one stock split of our shares that was approved by our shareholders on May 22, 2013.

	As of June 30,		As of December 31,		
	2014	2014	2013	2012	2011
	(thousands of US$)	(thousands of Ps.)	(thousands of Ps.)		
Consolidated statements of financial position data					
Current assets:					
Cash, cash equivalents and restricted cash	102,192.6	1,328,503.4	1,687,289.9	555,008.6	571,182.9
Trade receivables, net	6,109.0	79,416.8	63,183.4	43,325.0	32,199.0
Recoverable taxes – mainly value-added tax	16,701.7	217,122.3	166,770.0	121,930.1	85,093.7
Prepaid expenses	3,601.6	46,820.4	33,588.2	36,689.8	37,915.7
Assets available for sale	652.8	8,486.8	-	-	-
Total current assets	129,257.7	1,680,349.7	1,950,831.5	756,953.5	726,391.3
Property, equipment and leasehold improvements	446,878.9	5,809,425.7	5,449,937.6	4,494,785.8	3,881,235.8
Guarantee deposits	222.9	2,897.8	2,897.8	2,897.8	2,396.7
Other assets	1,133.2	14,731.7	12,565.1	108,122.7	8,681.9
Derivative financial instruments	1.3	17.5	102.4	344.0	2,700.1
Total assets	**577,494.0**	**7,507,422.4**	**7,416,334.4**	**5,363,103.8**	**4,621,405.8**
Liabilities and equity					
Current liabilities:					
Bank loans and current portion of long-term debt	9,136.6	118,775.2	107,857.8	86,688.4	55,844.5
Trade accounts payable	4,655.4	60,520.4	44,693.2	47,750.6	38,410.8
Other taxes and accrued expenses	9,677.1	125,801.8	84,689.7	85,836.8	31,828.2
Derivative financial instruments	-	-	-	262.9	1,183.6
Income tax and business flat tax	615.2	7,999.0	4,234.1	10,387.4	8,349.7
Direct employee benefits	88.0	1,143.5	1,097.5	6,067.3	4,871.1
Total current liabilities	24,172.3	314,239.9	242,572.3	236,993.4	140,487.9
Long-term debt	149,327.7	1,941,259.7	1,966,589.6	1,625,551.1	1,049,320.4
Derivative financial instruments	1,596.3	20,752.2	10,720.7	-	-
Deferred revenue	1,483.0	19,279.5	15,876.2	17,851.2	13,234.2
Employee benefits	99.9	1,299.2	1,140.2	1,033.4	465.4
Deferred income tax	11,564.8	150,342.3	153,400.1	224,713.5	248,381.0
Total liabilities	**188,244.0**	**2,447,172.8**	**2,390,299.1**	**2,106,142.6**	**1,451,888.9**
Equity					
Equity attributable to owners of the Company:					
Issued capital	283,722.6	3,688,393.8	3,642,550.3	716,942.8	716,942.8
Additional paid-in capital	-	-	52,459.5	1,074,219.2	1,074,219.4
Retained earnings	53,362.8	693,716.9	645,826.1	651,702.8	644,867.4
Accumulated other comprehensive income	(2,097.0)	(27,261.5)	(18,764.9)	1,187.2	3,211.4
Total equity attributable to owners of the Company	334,988.4	4,354,849.2	4,322,071.0	**2,444,052.0**	**2,439,241.0**
Non-controlling interests	54,261.6	705,400.4	703,964.3	812,909.2	730,275.9
Total equity	389,250.0	5,060,249.6	5,026,035.3	3,256,961.2	3,169,516.9
Total liabilities and equity	**577,494.0**	**7,507,422.4**	**7,416,334.4**	**5,363,103.8**	**4,621,405.8**

	For the Six Months Ended June 30,			For the Year Ended December 31,		
	2014	2014	2013	2013	2012	2011
	(thousands of US$)	(thousands of Ps.)		(thousands of Ps.)		
Non-IFRS Financial Data						
Adjusted EBITDA	16,225.6	210,932.9	156,636.8	358,196.1	279,715.0	189,691.8

See "—Adjusted EBITDA Reconciliation" below for a reconciliation of our operating income to Adjusted EBITDA.

	As of and for the Six Months Ended June 30,		As of or for the Year Ended December 31,		
	2014	2013	2013	2012	2011
Operating Statistics:					
Number of hotels at period end	86	73	82	71	62
Number of rooms at period end	9,778	8,360	9,326	8,092	6,973
Growth (%)	17.0%	16.1%	15.2%	16.0%	25.4%
Number of available room nights	1,729,097	1,479,797	3,040,485	2,692,814	2,229,818
Growth (%)	16.8%	14.1%	12.9%	20.8%	21.1%
Number of occupied room nights	976,411	786,992	1,675,426	1,530,712	1,223,053
Growth (%)	24.1%	10.9%	9.5%	25.2%	15.8%
Average Occupancy Rate	56.5%	53.2%	55.1%	56.8%	54.8%
ADR (Ps.)	730	724	722	683	668
RevPAR (Ps.)	412	385	398	388	366
Adjusted EBITDA per room [(1)]	22,083	19,042	41,129	37,134	30,266
Established Hotels Operating Statistics:					
Number of Established Hotels at period end	54	48	50	45	35
Average Occupancy Rate	60.2%	56.5%	58.0%	59.8%	59.4%
ADR (Ps.)	712	721	714	691	682
RevPAR (Ps.)	429	407	414	413	405

(1) Adjusted EBITDA per room is calculated by dividing Adjusted EBITDA for the period by the average number of rooms in operation during the period, which is the average between the number of rooms at the beginning of the period and at the end of the period.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this discussion and analysis together with "Summary Financial Information," "Selected Consolidated Financial and Operating Information" and our Financial Statements and the accompanying notes, which are included elsewhere in this offering memorandum.

This section contains forward-looking statements that reflect our plans, estimates and beliefs and involve risks, uncertainties and assumptions. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this offering memorandum, particularly in "Risk Factors" and "Forward-looking Statements." Investors should consider carefully the following discussion and the information set forth under "Risk Factors" before investing in our shares.

Overview

We believe we are the leading and fastest growing limited-service hotel chain in Mexico, based on number of hotels, number of rooms, geographic footprint, market share and revenues. We focus on providing quality, safe and comfortable accommodation at affordable prices across our network of limited-service hotels that primarily target business travelers in the markets where we have a presence. We operate as an integrated hospitality business platform developing, selectively acquiring, owning, managing, marketing and franchising hotels in the economy and budget segments. Although substantially all of our hotels are currently in Mexico, we have begun to expand into target markets in Latin America. We believe our focus on the value-conscious traveler is unique among lodging companies in Mexico, giving us a competitive advantage through specialization in a market that we believe is highly fragmented and underpenetrated by national and international hotel operators. Furthermore, we believe that by implementing international hospitality best practices and an efficient and flexible operating model, we are able to offer differentiated quality and value within our niche market.

Key Indicators of Operating Performance

We use a variety of operating and other information to evaluate the operating performance of our hotels and our business in general. These key indicators include financial information, as well as other financial measures that are non-IFRS measures, such as Adjusted EBITDA. In addition, we use other information that may not be financial in nature, including statistical information and comparative data. We use this information to measure the operating performance of our individual hotels, groups of hotels and/or our hotel business as a whole (*i.e.*, hotel chain-wide performance). We also use these statistics to evaluate the hotels in our portfolio to determine each hotel's contribution to the rental income from our portfolio and its potential to provide attractive long-term total returns. We intend to continue to use these key performance indicators to assess potential new investments, hotel acquisitions or divestitures and co-ownerships, as well as non-controlling interest acquisitions. These key indicators include:

- **Hotel Revenue**. Our revenue is primarily derived from the rent of rooms. This revenue will depend principally on our ability to maintain or increase our occupancy rates, ADRs, RevPARs and the number of rooms we have available for rental. Rental revenue is also affected by many factors outside of our control, including the supply and demand for hotel rooms in our target markets, competition and macroeconomic conditions. See "Risk Factors—Risks Related to our Business—We are subject to various operating and business risks common to the lodging industry in general." Unfavorable changes in these factors could negatively impact hotel room demand and pricing and our capacity to continue with our expansion plans, which could each affect our rental revenue.

- **Hotel Costs and Expenses**. Many of the costs and expenses associated with hotel operations are relatively fixed. If we are unable to decrease these costs significantly or rapidly when demand for our hotels decreases, the resulting decline in our revenues can have an adverse effect on our net cash flow, margins and income. This effect can be especially pronounced during periods of economic contraction or slow economic growth. Economic downturns generally affect the results of our owned, co-owned and leased hotel segments more significantly than the results of our management and franchising segments due to the fixed costs associated with operating an owned, co-owned or leased property. The effectiveness of any cost-cutting efforts is limited

by the fixed-cost nature of our business. As a result, we may not be able to offset further revenue reductions through cost-cutting.

- **Occupancy Rate**. Occupancy rate represents the total number of hotel rooms rented in a given period divided by the total number of rooms available. Occupancy rate measures the utilization of our hotels' available capacity. Management uses occupancy to gauge demand at a specific hotel or group of hotels in a given period. Occupancy rates also help us determine achievable ADR levels as demand for hotel rooms increases or decreases. Increases in occupancy at a hotel would lead to increases in room revenues and additional variable operating costs (including housekeeping services, utilities and room amenity costs).

- **ADR**. Average daily rate, or ADR, represents total hotel room revenues divided by total number of rooms rented in a given period. ADR measures average room price attained by a hotel, and ADR trends provide useful information concerning the pricing environment and the nature of the customer base of a hotel or group of hotels. ADR is a commonly used performance measure in the industry, and we use ADR to assess the pricing levels that we are able to generate by guest group, as changes in ADR typically have a greater impact on margins and profitability as there is no substantial effect on variable costs.

- **RevPAR**. Revenue per available room, or RevPAR, is the product of ADR and the occupancy rate. RevPAR is another commonly used performance measure in the industry used to identify trend information with respect to room revenues and to evaluate hotel performance on a group and segment basis. RevPAR changes that are driven predominantly by changes in occupancy have different implications for overall revenue levels and incremental profitability than do changes that are driven predominantly by changes in ADRs. This is generally due to the fact that increases in occupancy usually result in increased variable operating costs, whereas increases in ADRs alone usually do not necessarily result in increases in such costs.

- **Established Hotels**. We believe our hotels generally have completed their ramp-up cycle 36 months after opening, after which we consider such hotel to be an Established Hotel. Because such a large percentage of our hotels are new properties still in the ramp-up stage, evaluating the key performance indicators of our Established Hotels allows us to compare our operating performance with other companies in the hospitality industry that are not experiencing the same rapid growth as us.

- **Growth in Established Hotels**. Given that we are a rapidly expanding company, measuring growth in Established Hotels allows us to differentiate between growth generated by the opening of new hotels and growth from improved operations at existing Established Hotels. Growth in revenue from Established Hotels, for example, refers to the difference in revenue generated by our Established Hotels over a period of time compared to an identical prior period. Growth in revenue from Established Hotels indicates whether our revenue is increasing or decreasing over time with respect to such subset of hotels. If a hotel has not been operated for the entire 36-month period prior to a relevant period end date, its revenue is excluded from our calculation of revenue from Established Hotels.

- **Adjusted EBITDA**. Adjusted EBITDA is presented as supplemental information because we believe it is a useful indicator of our operating performance and is useful in comparing our operating performance with other companies in the hospitality industry and in comparing our performance across periods on a consolidated basis. Adjusted EBITDA does not include expenses associated with opening of new hotels, which we consider as non-recurring expenses with respect to each specific new hotel once in operation. By removing the expenses we incur upon the opening of each of the hotels, our results more accurately reflect the operating performance of our core hotel operation business on a consolidated basis. Adjusted EBITDA, however, should not be considered in isolation, as a substitute for total net income prepared in accordance with IFRS or as a measure of a company's profitability. In addition, our calculation of Adjusted EBITDA may not be comparable to other companies' similarly titled measures. See "—Adjusted EBITDA Reconciliation" below for a reconciliation of our operating income to Adjusted EBITDA.

- **Segment and Combined Results**. We operate along two business segments: hotel operation and hotel management. Each of these operating segments includes activities from which we may earn revenues and incur expenses (including revenues and expenses relating to intercompany transactions). While under IFRS, intercompany transactions are eliminated and our Financial Statements accordingly present our consolidated

results following such eliminations, our management evaluates our operating results and financial performance and assigns resources on an individual segment basis as well as a combined segment basis without giving effect to intercompany eliminations. The principal intercompany transactions that are eliminated in our segment reporting in connection with the consolidation of our financial information under IFRS are management fees earned by our hotel management segment from our hotel operation segment. We believe this information is relevant because it shows results and improvements for each of our individual business activities without the effect of consolidation accounting. Analyzing performance per business segment allows us to adequately assess our core business results and improvements in operations. See Notes 26 and 19 to our 2013/2012 Audited Financial Statements and Interim Financial Statements, respectively, for additional information.

Factors Influencing our Results

Macroeconomic Environment. Substantially all of our operations and revenues are in Mexico. As a result, our operating results and our financial performance depend upon the demand for our lodging offerings, which is closely linked to the general economy and sensitive to business and discretionary spending levels in Mexico. While the lodging industry in Mexico has benefited from the significant growth experienced by the Mexican economy over the past two decades, the global financial crisis and economic slowdown in 2008 and 2009 negatively affected business and consumer confidence and contributed to slowdowns in most industries, particularly the lodging industry. According to INEGI, Mexico's economy resumed growth with real GDP increases of 4.0% in both 2011 and 2012, driven to a large degree by growth in the manufacturing, industrial and construction sectors. In 2013, the growth rate decreased to a modest 1.1%. The Banco de México estimates that Mexico's GDP will grow at an annualized rate between 2.0% and 2.8% during the second half of 2014. Government policy with respect to inflation or interest rate levels may also affect our costs and expenses, as we may not be able to pass on increased costs to our customers during the same period. Other macro-economic factors beyond our control in Mexico or in other markets as we selectively grow outside of Mexico may also affect our results of operations and/or the supply and demand for hotel rooms in our markets. For example, any prolonged recurrence of contagious diseases, social instability or significant natural disasters may have a negative impact on the demand for our lodging. See "Risk Factors—Risks Related to our Business—We are subject to various operating and business risks common to the lodging industry in general." Unfavorable changes in these factors could negatively impact hotel room demand and pricing and our capacity to continue with our expansion plans, which could each affect our rental revenue.

Rapid Growth. We are a rapidly expanding company. As of June 30, 2014, 37.2% of our hotels were opened within the previous three years. Generally, the operation of a hotel goes through various stages, including construction, opening, ramp-up, stabilization with relation to occupancy rates and ADR and, subsequently, maturity once stabilized.

The following table illustrates the total number of properties in the opening, ramp-up and Established Hotel stages as of each of the dates presented.

	As of June 30,		As of December 31,		
	2014	2013	2013	2012	2011
Number of hotels opened during the period	4	2	11	9	12
Number of properties in ramp-up stage	32	25	32	26	27
Number of Established Hotels	54	48	50	45	35
Total number of operating hotels	86	73	82	71	62

From ground-breaking to opening, which typically lasts between six and twelve months, our hotels generally incur non-recurring opening expenses ranging from approximately Ps.12,000 to Ps.15,500 per new hotel room installed. During the early months of the ramp-up stage, the occupancy rate is relatively low and revenues may be insufficient to cover a hotel's operating costs, which are relatively fixed in nature. Although we incur operating losses at the initial stages of operation, our hotels begin to operate at an operating income where they are able to reach a 30.0% and 32.0% occupancy rate at our target ADR. The opening expenses incurred while properties are placed into operation and the lower profitability during the ramp-up stage may have a negative impact on our financial performance. As a result of

our focus on expansion through new hotel openings, 32 of our hotels as of June 30, 2014 were in the ramp-up phase, which is reflected in the rapid increases in both our consolidated revenues and our costs year over year, affecting the comparability of our results. Although we plan to continue to expand our hotel portfolio, we expect the proportion of Established Hotels in our hotel network to increase over time, which we believe will have a positive effect on our results of operations.

Mix of Hotel Ownership Models. The mix of owned, co-owned, leased, managed and franchised hotels in our hotel portfolio affects our results of operations in a given period. Our owned and co-owned hotels have been and will continue to be the main contributor to our revenues as we extend our current business strategy. Within our hotel ownership model, while each hotel incurs certain upfront development costs and opening expenses, we generally expect more revenues and income contribution once a hotel's operations mature. We do not have, nor do we seek to acquire, equity interests in hotels that we do not or will not operate or otherwise manage. We operate and derive income from our leased hotels as if such hotels were owned by us. Under our lease contracts, we pay a fixed rent to the hotel owner and, in certain instances, the owner benefits from the hotel's performance via additional variable payments. Under the management and franchise models, the owner or franchisee bears substantially all the capital expenditures, opening and operational expenses. As such, our management model enables us to quickly expand our network without incurring significant capital expenditures or expenses.

The following table sets forth the number of hotels and rooms by ownership model in each of the periods presented.

	As of June 30,		**As of December 31,**		
	2014	**2013**	**2013**	**2012**	**2011**
Number of hotels	**86**	**73**	**82**	**71**	**62**
Annual hotel growth (%)	17.8%	14.0%	15.5%	14.5%	24.0%
Owned and managed hotels	31	27	30	23	15
Co-owned and managed hotels	24	19	23	21	22
Leased and managed hotels	11	11	11	10	10
Managed hotels	16	12	14	13	11
Franchised hotels	4	4	4	4	4
Number of available rooms	**9,778**	**8,360**	**9,326**	**8,092**	**6,973**
Annual room growth (%)	17.0%	16.1%	15.2%	16.1%	25.4%
Owned hotels	3,743	3,244	3,619	2,787	1,867
Co-owned hotels	2,821	2,338	2,710	2,569	2,616
Leased hotels	1,129	1,129	1,129	1,020	1,020
Managed hotels	1,692	1,256	1,475	1,323	1,077
Franchised hotels	393	393	393	393	393

We intend to increase the number of managed hotels in our hotel portfolio and continue to strive for diversified revenue sources among hotel models.

Adjusted EBITDA Reconciliation

Adjusted EBITDA is a measure used in our financial analysis that is not recognized under IFRS but is calculated from amounts derived from our financial statements. We calculate Adjusted EBITDA by adding depreciation and specific expenses associated with the opening of new hotels, which we consider non-recurring with respect to the hotel once in operation, to our consolidated operating income. We may calculate Adjusted EBITDA differently than other hotel operators, and it should not be construed as an alternative to (i) net income as an indicator of our operating performance or (ii) cash flow from operations as a measure of our liquidity.

The following table presents a reconciliation of our operating consolidated income as determined in accordance to IFRS to Adjusted EBITDA as applicable for each of the specified periods:

	For the Six Months Ended June 30,		For the Year Ended December 31,		
	2014	2013	2013	2012	2011
	(In thousands of Ps.)				
Consolidated operating income..	**102,849.9**	**75,157.8**	**178,566.1**	**122,939.0**	**68,413.7**
Depreciation	101,377.1	75,666.3	163,662.6	144,498.5	107,750.8
Expenses associated with the opening of new hotels............	6,706.0	5,812.7	15,967.4	12,277.5	13,527.4
Adjusted EBITDA.......................	**210,932.9**	**156,636.8**	**358,196.1**	**279,715.0**	**189,691.8**

Results from Operating Segments

We regularly assess our operating results and financial performance and assign resources along our two operating segments: hotel operation and hotel management. Each of these operating segments includes activities from which we may earn revenues and incur expenses (including revenues and expenses relating to intercompany transactions).

- **Hotel Operation**. Revenues from hotel operation are generated primarily by room rentals and include revenues generated by those hotels we own, those we co-own with an equity interest of 50.0% or greater and revenues from our leased hotels. Because of our focus on the limited-service hospitality segment, approximately 95% of our hotel operation revenue is derived primarily from the rent of rooms with approximately 5% generated from food and beverage, guest services and other amenities. Our hotel operating costs consist of costs and expenses directly attributable to the operation of our hotels, including room expenses, payroll, promotional and sales expenses, utilities, maintenance expenses, property taxes and insurance. See Note 21 to our 2013/2012 Audited Financial Statements for a detailed description of our hotel operating costs and expenses.

- **Hotel Management**. We generate revenues primarily from management fees we charge our owned, co-owned and leased hotels, as well as hotels we manage and franchise for third parties. We also obtain revenues from our hotel development services to both our own hotels, which are intercompany transactions, as well as hotels owned by third-parties, which are not eliminated in consolidation. Selling and administrative expenses are attributable to our hotel management segment and include the corporate expenses related to managing hotels on a consolidated basis. The significant expenses within this category include salaries, administrative expenses, call center, marketing and advertising expenses, corporate office rent, legal fees and severance payments for our operations staff, sales and marketing offices, hotel development and supervision teams and administration, accounting, legal corporate finance and corporate human resources and technology departments, as well as the office of the senior management. See Note 22 to our 2013/2012 Audited Financial Statements for a detailed description of our selling and administrative expenses.

  We enter into long-term hotel management contracts with all of our owned, co-owned, leased and managed hotels. As a result, our hotel management segment receives management and other fees from the owned, co-owned and leased hotels whose operations fall within our hotel operation segment. Fees received from those owned, co-owned and leased hotels are paid to the hotel management segment on substantially the same basis as the management fees that segment receives from unrelated third parties. Under IFRS, pursuant to criteria established in IAS 27—*Consolidated and Individual Financial Statements*, the management fees charged to the owned, co-owned and leased properties that are accounted for as revenues in our hotel management segment are eliminated as both revenues of our hotel management segment and expenses of our hotel operation segment, while the costs and expenses of our hotel management segment are not eliminated. Such eliminated fees represent approximately 83.0% of the total revenues in the hotel management segment.

The tables below present the financial information of each segment as it is presented to our internal management for assessment of performance and resource allocation. The results of each segment are presented on a gross basis, prior to the elimination of management fees paid by our hotel operation segment to the hotel management segment, with a separate column presenting the relevant eliminations to arrive at consolidated amounts that are reported in the consolidated statement of income and other comprehensive income included in our Financial Statements.

For the Six Months Ended June 30, 2014

Condensed Consolidated Interim Statements of Income and Other Comprehensive Income (Loss) data:	Hotel operation	Hotel management	Total	Eliminations	Total Consolidated
			(thousands of Ps.)		
Total revenues	620,453.1	156,653.1	777,106.2	(127,667.5)	649,438.7
Costs and expenses (excluding depreciation)	(437,798.4)	(128,374.9)	(566,173.3)	127,667.5	(438,505.8)
Income before other non-recurring operating expenses and depreciation	182,654.7	28,278.2	210,932.9	-	210,932.9
Other expenses and expenses associated with opening of new hotels	(6,706.0)	-	(6,706.0)	-	(6,706.0)
Income before depreciation	175,948.7	28,278.2	204,226.9	-	204,226.9
Depreciation	(101,377.1)	-	(101,377.1)	-	(101,377.1)
Operating income	74,571.6	28,278.2	102,849.9	-	102,849.9

For the Six Months Ended June 30, 2013

Condensed Consolidated Interim Statements of Income and Other Comprehensive Income (Loss) data:	Hotel operation	Hotel management	Total	Eliminations	Total Consolidated
			(thousands of Ps.)		
Total revenues	491,796.8	110,551.1	602,347.9	(92,892.4)	509,455.5
Costs and expenses (excluding depreciation)	(345,716.3)	(101,308.5)	(447,024.8)	92,892.4	(354,132.4)
Income before other non-recurring operating expenses and depreciation	146,080.5	9,242.6	155,323.1	-	155,323.1
Other expenses and expenses associated with opening of new hotels	(4,499.0)	-	(4,499.0)	-	(4,499.0)
Income before depreciation	141,581.5	9,242.6	150,824.1	-	150,824.1
Depreciation	(75,666.3)	-	(75,666.3)	-	(75,666.3)
Operating income	65,915.2	9,242.6	75,157.8	-	75,157.8

For the Year Ended December 31, 2013

Statement of income and other comprehensive income data:	Hotel operation	Hotel management	Total	Eliminations	Total Consolidated
			(thousands of Ps.)		
Total revenues	1,057,859.4	270,545.4	1,328,404.8	(224,449.2)	1,103,955.6
Costs and expenses (excluding depreciation)	(741,260.6)	(230,067.5)	(971,328.1)	244,449.2	(746,878.9)
Income before other non-recurring operating expenses and depreciation	316,598.8	40,477.9	357,076.7	-	357,076.7
Other expenses and expenses associated with opening of new hotels	(14,848.0)	-	(14,848.0)	-	(14,848.0)
Income before depreciation	301,750.8	40,477.9	342,228.7	-	342,228.7
Depreciation	(163,662.6)	-	(163,662.6)	-	(163,662.6)
Operating income	138,088.2	40,477.9	178,566.1	-	178,566.1

For the Year Ended December 31, 2012

Statement of income and other comprehensive income data:	Hotel operation	Hotel management	Total	Eliminations	Total Consolidated
			(thousands of Ps.)		
Total revenues	899,353.8	218,116.1	1,117,469.9	(185,266.6)	932,203.3
Costs and expenses (excluding depreciation)	(687,619.9)	(147,540.8)	(835,160.8)	185,266.6	(649,894.2)
Income before other non-recurring operating expenses and depreciation	211,733.9	70,575.3	282,309.1	-	282,309.1
Other expenses and expenses associated with opening of new hotels	(14,871.7)	-	(14,871.7)	-	(14,871.7)
Income before depreciation	196,862.2	70,575.3	267,437.4	-	267,437.4
Depreciation	(144,498.5)	-	(144,498.5)	-	(144,498.5)
Operating income	52,363.7	70,575.3	122,939.0	-	122,939.0

For the Year Ended December 31, 2011

Statement of income and other comprehensive income data:	Hotel operation	Hotel management	Total	Eliminations	Total Consolidated
			(thousands of Ps.)		
Total revenues	692,772.7	170,501.3	863,274.0	(148,226.0)	715,048.0
Costs and expenses (excluding depreciation)	(558,047.0)	(113,155.0)	(671,202.0)	148,226.0	(522,976.0)
Income before other non-recurring operating expenses and depreciation	134,725.7	57,346.3	192,072.0	-	192,072.0
Other expenses and expenses associated with opening of new hotels	(15,907.5)	-	(15,907.5)	-	(15,907.5)
Income before depreciation	118,818.2	57,346.3	176,164.5	-	176,164.5
Depreciation	(107,750.8)	-	(107,750.8)	-	(107,750.8)
Operating income	11,067.4	57,346.3	68,413.7	-	68,413.7

Historical Results of Operation

The information below is presented on a consolidated basis and by operating segment. Under IFRS, intercompany transactions, such as the management fees charged to the owned, co-owned and leased properties that are accounted for as revenues in our hotel management segment are eliminated as both revenues of our hotel management segment and expenses of our hotel operation segment, while the costs and expenses of our hotel management segment are not eliminated. Financial information for individual business segment amounts is reflected prior to these intercompany eliminations. Combined and consolidated financial information is reflected after intercompany eliminations.

Comparison of the six months ended June 30, 2014 to the six months ended June 30, 2013

Revenues and Costs and Expenses. Our total consolidated revenues increased by 27.5% from Ps.509.5 million for the six months ended June 30, 2013 to Ps.649.4 million for the six months ended June 30, 2014. This growth in revenue was primarily due to a 16.8% increase in installed room capacity, which was a result of new hotel openings and a 24.1% increase in rooms-nights-sold across the hotel chain. Our ADR and RevPAR for the period ended June 30, 2014 increased by 0.8% and 7.0% respectively over our ADR and RevPAR for the same period in 2013. Consolidated hotel operating costs and expenses were Ps.335.8 million for the six months ended June 30, 2014, representing a 23.0% increase compared to Ps.273.0 million for the six months ended June 30, 2013. This increase was primarily a result of the larger number of hotels in operation during the period and the relative growth in room expenses and payroll expenses related to hotel operations.

Our combined business segment total revenues (before intersegment eliminations) increased by 29.0% from Ps.602.3 million for the six months ended June 30, 2013 to Ps.777.1 million for the six months ended June 30, 2014.

- *Hotel operation.* Hotel operation business segment revenues for the six months ended June 30, 2014 increased by 26.2% to Ps.620.5 million from Ps.491.8 million for the six months ended June 30, 2013. This increase was primarily driven by a 24.1% growth in the number of occupied rooms as a result of the opening of thirteen hotels since June 30, 2013 and a 0.8% increase in ADR, which was Ps.730.0 for the six months ended June 30, 2014. Chain-wide RevPAR rose to Ps.412.0 for the six months ended June 30, 2014, a 7.0% increase from the same period in the previous year. Revenue from Established Hotels increased 18.3% for the six month period ended June 30, 2014 as a result of increases of 5.3% and 370 basis points in RevPAR and in occupancy rate, respectively.

  Hotel operation business segment costs and expenses were Ps.437.8 million for the six months ended June 30, 2014, representing a 26.6% increase compared to Ps.345.7 million for the six months ended June 30, 2013. This increase was primarily a result of a higher number of occupied rooms across the chain during the latter period. Other non-recurring expenses and expenses associated with opening of new hotels increased by 49.1% to Ps.6.7 million from Ps.4.5 million for the six months ended June 30, 2014. As a result of the foregoing, operating income from our hotel operation business segment increased by 13.1% to Ps.74.6 million for the six months ended June 30, 2014 from Ps.65.9 million for the six months ended June 30, 2013.

- *Hotel management.* Hotel management business segment revenues increased 41.7% to Ps.156.7 million for the six months ended June 30, 2014 from Ps.110.6 million for the six months ended June 30, 2013. Higher hotel management revenues were primarily driven by new hotel openings, which increased rooms in operation and resulted in an increase in occupied rooms during the second half of 2013 and the first half of 2014. Hotel management costs and expenses were Ps.128.4 million for the six months ended June 30, 2014, representing a 26.7% increase compared to Ps.101.3 million for the six months ended June 30, 2013. This increase was primarily a result of expanded hotel management-related expenses due to the increase in the number of properties under management since June 30, 2013 and expenses in preparation for the growth in operations expected in Mexico and internationally.

Selling and administrative expenses. Selling and administrative expenses amounted to Ps.102.7 million for the six months ended June 30, 2014, a 26.6% increase as compared to Ps.81.2 for the six months ended June 30, 2013. The increase was primarily a result of the growth in our hotel operation business that required additional expenses both in administration and sales. As a percentage of total revenue, corporate expenses represented 15.9% of total revenues for the six months ended June 30, 2013 and 15.8% of total revenues for the six months ended June 30, 2014.

Depreciation. Due to our continued investment and expansion in new hotels, we had depreciation of Ps.101.4 million for the six months ended June 30, 2014, an increase of 34.0% from Ps.75.7 million in the comparable period of the six months ended June 30, 2013.

Expenses associated with the opening of new hotels. Non-recurring expenses related to the opening of new hotels totaled Ps.6.7 million for the six months ended June 30, 2014, a 15.4% increase from the Ps.5.8 million incurred for the six months ended June 30, 2013. This higher expense was mainly attributable to the higher number of hotels opened during the first half of 2014.

Operating income. Our operating income consolidates the earnings of our hotel operation and hotel management segments and deducts our selling and administrative expenses, depreciation and non-recurring expenses associated with the opening of new hotels. Accordingly, as a result of the foregoing, consolidated operating income was Ps.102.9 million for the six months ended June 30, 2014, a 36.8% increase as compared to Ps.75.2 million for the six months ended June 30, 2013.

Net financing costs. Our net financing costs were Ps.41.8 million for the six months ended June 30, 2014, a 4.8% increase as compared to Ps.39.8 million for the six months ended June 30, 2013. Net interest expense, calculated by subtracting interest income from interest expense, decreased 7.4% to Ps.36.7 million for the six months ended June 30, 2014, from Ps.39.6 million in the comparable period of 2013, due to an increase in our finance income, which was only partially offset by the increase in our finance costs during the period. The effects of valuation of financial instruments decreased to Ps.0.6 million during the six months ended June 30, 2014, from Ps.1.3 million during the comparable period for 2013. The net exchange result was a loss of Ps.5.7 million for the six months ended June 30, 2014, compared to a gain of Ps.0.7 million for the six months ended June 30, 2013.

Taxes. Our tax expense was Ps.12.2 million for the six months ended June 30, 2014, a 72.9% increase as compared to a tax expense of Ps.7.1 million for the six months ended June 30, 2013. This increase was due primarily to the increase in income before tax expenses for the six months ended June 30, 2014 at our estimated effective tax rate for 2014.

Consolidated net income. As a result of the factors described above, our consolidated net income for the six months ended June 30, 2014 was Ps.48.9 million, which was a 72.9% increase as compared to the Ps.28.3 million for the six months ended June 30, 2013.

Comparison of Year Ended December 31, 2013 to the Year Ended December 31, 2012

Revenues and Costs and Expenses. Our total consolidated revenues increased by 18.4% from Ps.932.2 million in 2012 to Ps.1,104.0 million in 2013. Consolidated hotel operating costs and expenses were Ps.569.7 million during the year ended December 31, 2013, representing a 13.4% increase compared to Ps.502.4 million during the year ended December 31, 2012. This increase was primarily a result of the larger number of hotels in operation. The costs that experienced the most significant increases included: (i) room expenses, which grew to Ps.154.7 million for the year ended December 31, 2013, an increase of 17.7% from Ps.131.4 million for the year ended December 31, 2012; (ii) energy expenses related to hotel operations, which reached Ps.64.3 million for the year ended December 31, 2013, an increase of 15.8% from Ps.55.5 million for the year ended December 31, 2012; and (iii) administrative and general expenses, which were Ps.106.0 million for the year ended December 31, 2013, an increase of 27.8% from Ps.82.9 million for the year ended December 31, 2012.

Our combined business segment total revenues (before intersegment eliminations) increased by 18.9% from Ps.1,117.5 million in 2012 to Ps.1,328.4 million in 2013.

- *Hotel operation.* Hotel operation business segment revenues for the year ended December 31, 2013 increased by 17.6% to Ps.1,057.9 million from Ps.899.4 million for the year ended December 31, 2013. This increase was primarily driven by a 9.5% growth in the number of occupied rooms as a result of 11 hotel openings during the year and a 5.6% increase in ADR, which was Ps.722 for the year. Chain-wide RevPAR rose to Ps.398 in 2013, a 2.4% increase from the previous year. Revenue from Established Hotels increased 11.4% during 2013 as a result of the increase in our Established Hotels by five new hotels, and a 3.4% increase in ADR. As a result, RevPAR for our Established Hotels increased 0.3% to reach Ps.413 in 2013.

  Hotel operation business segment costs and expenses were Ps.741.3 million during the year ended December 31, 2013, representing a 7.8% increase compared to Ps.687.6 million during the year ended December 31, 2012. This increase was primarily a result of a higher volume of occupied rooms across the chain during the year. Other non-recurring expenses and expenses associated with opening of new hotels decreased by 0.2% to Ps.14.8 million for the year ended December 31, 2013 from Ps.14.9 million for the year ended December 31, 2012. As a result of the foregoing, operating income from our hotel operation business segment increased by 163.7% to Ps.138.1 million during the year ended December 31, 2013, from Ps.52.4 million in 2012.

- *Hotel management.* Hotel management business segment revenues increased 24.0% to Ps.270.5 million for the year ended December 31, 2013 from Ps.218.1 million for the year ended December 31, 2012. Higher hotel management revenues were primarily driven by new hotel openings, which increased rooms in operation and resulted in an increase in occupied rooms during 2013. Hotel management costs and expenses as a business segment were Ps.230.1 million during the year ended December 31, 2013, representing a 55.9% increase compared to Ps.147.5 million during the year ended December 31, 2012. This increase was primarily a result of expanded hotel management related expenses due to the increase in the number of properties under management during the year and expenses in preparation for the growth in operations expected in Mexico and internationally.

Selling and administrative expenses. Selling and administrative expenses amounted to Ps.177.2 million for the year ended December 31, 2013, a 20.1% increase as compared to Ps.147.5 million for the year ended December 31, 2012. The increase was primarily a result of the growth in our hotel operation business that required additional expenses both in administration and sales. Even though the number of operating hotels increased, as a percentage of total revenue, corporate expenses remained generally level, representing 15.8% of total revenues in 2012 and 16.0% in 2013.

Depreciation. Due to our continued investment and expansion in new hotels, we had depreciation of Ps.163.7 million for the year ended December 31, 2013, an increase of 13.3% from Ps.144.5 million in the comparable period of 2012.

Expenses associated with the opening of new hotels. Non-recurring expenses related to the opening of new hotels totaled Ps.16.0 million for the year ended December 31, 2013, a 30.1% increase from Ps.12.3 million for the year ended December 31, 2012.

Operating income. Our consolidated operating income consolidates the earnings of our hotel operation and hotel management segments and deducts our selling and administrative expenses, depreciation and non-recurring expenses associated with the opening of new hotels. Accordingly, as a result of the foregoing, consolidated operating income was Ps.178.6 million for the year ended December 31, 2013, a 45.2% increase as compared to Ps.122.9 million for the year ended December 31, 2012.

Net financing costs. Our net financing costs were Ps.76.1 million for the year ended December 31, 2013, a 17.1% decrease as compared to Ps.91.8 million for the year ended December 31, 2012. Net interest expense decreased 15.2% to Ps.68.1 million for the year ended December 31, 2013, from Ps.80.2 million in the comparable period of 2012, due to an increase in our finance income, which was only partially offset by the increase in our finance costs during the period. The effects of valuation of financial instruments totaled Ps.2.3 million during the year ended December 31, 2013, as compared to a loss of Ps.1.4 million during the corresponding period of 2012. The net exchange result was a loss of Ps.2.2 million during year ended December 31, 2013, compared to a loss of Ps.10.1 million in the comparable period of 2012. This loss in 2013 was primarily due to our long position, on average in 2013, in U.S. dollars.

Taxes. Our tax expense was Ps.18.8 million for the year ended December 31, 2013, a more than two-fold increase as compared to Ps.5.6 million for the same period of 2012. This increase was due primarily to the increase in income before tax expenses for the year ended December 31, 2013, as compared to the corresponding period of 2012.

Consolidated net income. As a result of the factors described above, our consolidated net income for the year ended December 31, 2013 was Ps.83.7 million, which was a more than two-fold increase as compared to Ps.25.6 million for the year ended December 31, 2012.

Comparison of Year Ended December 31, 2012 to the Year Ended December 31, 2011

Revenues and Costs and Expenses. Our total consolidated revenues increased by 30.4% from Ps.715.0 million in 2011 to Ps.932.2 million in 2012. Consolidated hotel operating costs and expenses were Ps.502.4 million during the year ended December 31, 2012, representing a 22.6% increase compared to Ps.409.8 million during the year ended December 31, 2011. This increase was primarily a result of the larger number of hotels in operation, including the opening of our first hotel in Costa Rica. The costs that experienced the most significant increases included: (i) room expenses, which grew to Ps.131.4 million for the year ended December 31, 2012, an increase of 18.7% from Ps.110.7

million for the year ended December 31, 2011; (ii) payroll expenses related to hotel operations, which reached Ps.86.3 million for the year ended December 31, 2012, an increase of 59.4% from Ps.54.2 million for the year ended December 31, 2011; and (iii) administrative and general expenses, which were Ps.82.9 million for the year ended December 31, 2012, an increase of 17.4% from Ps.70.6 million for the year ended December 31, 2011.

Our combined business segment total revenues increased by 29.4% from Ps.863.3 million in 2011 to Ps.1,117.5 million in 2012.

- *Hotel operation.* Hotel operation business segment revenues for the year ended December 31, 2012 increased by 29.8% to Ps.899.4 million from Ps.692.8 million for the year ended December 31, 2011. This increase was primarily driven by a 25.2% growth in the number of occupied rooms as a result of nine hotel openings during the year, a 2.0 percentage point increase in occupancy levels across the hotel chain, and a 2.3% increase in ADR, which was Ps.683 for the year. Chain-wide RevPAR rose to Ps.388 in 2012, a 6.0% increase from the previous year. Revenue from Established Hotels increased 37.5% during 2012 as a result of the increase in our Established Hotels by ten new hotels, a 40 basis point increase in occupancy levels, and a 1.4% increase in ADR. As a result, RevPAR for our Established Hotels increased 2.0% to reach Ps.413 in 2012.

  Hotel operation business segment costs and expenses were Ps.687.6 million during the year ended December 31, 2012, representing a 23.2% increase compared to Ps.558.0 million during the year ended December 31, 2011. This increase was primarily a result of a higher volume of occupied rooms across the chain during the year. Other non-recurring expenses and expenses associated with opening of new hotels decreased by 6.5% to Ps.14.9 million from Ps.15.9 million for the year ended December 31, 2011 due to a lower number of hotel openings in 2012. As a result of the foregoing, operating income from our hotel operation business segment increased by 373.1% to Ps.52.3 million during the year ended December 31, 2012, from Ps.11.1 million in 2011.

- *Hotel management.* Hotel management business segment revenues increased 27.9% to Ps.218.1 million for the year ended December 31, 2012 from Ps.170.5 million for the year ended December 31, 2011. Higher hotel management revenues were primarily driven by new hotel openings, which increased rooms in operation and resulted in an increase in occupied rooms during 2012. Hotel management costs and expenses as a business segment were Ps.147.5 million during the year ended December 31, 2012, representing a 30.4% increase compared to Ps.113.2 million during the year ended December 31, 2011. This increase was primarily a result of expanded hotel management related expenses due to the increase in the number of properties under management during the year and expenses in preparation for the growth in operations expected in Mexico and internationally.

Selling and administrative expenses. Selling and administrative expenses amounted to Ps.147.5 million for the year ended December 31, 2012, a 30.4% increase as compared to Ps.113.2 million for the year ended December 31, 2011. The increase was primarily a result of the growth in our hotel operation business that required additional expenses both in administration and sales. Even though the number of operating hotels increased, as a percentage of total revenue, corporate expenses represented 15.8% of total revenues in each of, 2012 and 2011.

Depreciation. Due to our continued investment and expansion in new hotels, we had depreciation of Ps.144.5 million for the year ended December 31, 2012, an increase of 34.1% from Ps.107.8 million in the comparable period of 2011.

Expenses associated with the opening of new hotels. Non-recurring expenses related to the opening of new hotels totaled Ps.12.3 million for the year ended December 31, 2012, a 9.2% decrease from Ps.13.5 million for the year ended December 31, 2011. This lower expense was mainly attributable to the lower number of rooms opened in 2012 of 1,119 when compared to 1,411 in 2011.

Operating income. Our consolidated operating income consolidates the earnings of our hotel operation and hotel management segments and deducts our selling and administrative expenses, depreciation and non-recurring expenses associated with the opening of new hotels. Accordingly, as a result of the foregoing, consolidated operating income

was Ps.122.9 million for the year ended December 31, 2012, a 79.7% increase as compared to Ps.68.4 million for the year ended December 31, 2011.

Net financing costs. Our net financing costs were Ps.91.8 million for the year ended December 31, 2012, a 77.7% increase as compared to Ps.51.7 million for the year ended December 31, 2011. Net interest expense increased 17.7% to Ps.80.2 million for the year ended December 31, 2012, from Ps.68.2 million in the comparable period of 2011, due to the higher financial debt related to the new hotels in operation and the refinancing of debt related to certain properties once stabilized from loan-to-cost to loan-to-value in order to benefit from the capital appreciation of those stabilized properties. The net exchange result was a loss of Ps.10.1 million during year ended December 31, 2012, compared to a gain of Ps.14.8 million in the comparable period of 2011. This loss in 2012 was primarily due to our long position, on average in 2012, in U.S. dollars.

Taxes. Our tax expense was Ps.5.6 million for the year ended December 31, 2012, compared to Ps.6.7 million for the same period of 2011, due to increased capital expenditures during 2012 that resulted in larger deductions to taxable income when calculating income taxes under the business flat tax (IETU) regime and a negative tax basis under the income tax (ISR) regime.

Consolidated net income. As a result of the factors described above, our consolidated net income for the year ended December 31, 2012 was Ps.25.6 million, which was a 155.8% increase as compared to Ps.10 million for the year ended December 31, 2011.

Liquidity and Capital Resources

General

We are an integrated hotel and hospitality business platform that holds substantial ownership interest in hotel properties and related real estate assets primarily in Mexico. Our business growth strategy requires investing resources in new hotel developments which require capital expenditures in land for future property development, property construction, purchase of hotel operating equipment and expenses associated with the opening of new hotels. In addition, we incur capital expenditures in order to keep our owned, co-owned and leased hotels modern, attractive and competitive. We have a disciplined and systematic management of expenses associated with hotel maintenance and replacement of equipment. Finally, our cash requirements also consist of payment on debt. All of these investments create a continuing need for cash.

Our primary sources of liquidity historically have been the cash flow generated from our hotel operating activities (including hotel management), the equity contributions from our shareholders, equity contributions from our partners in co-owned hotels who hold non-controlling equity interests in those co-owned investments, debt financing from banks and proceeds from our initial public offering in June 2013. Our new hotel developments are normally financed at a 45.0% loan-to-cost ratio and we normally re-finance our Established Hotels at a 50.0% loan-to-value ratio.

The following table summarizes our cash flows for the years ended December 31, 2013, 2012 and 2011, and the six-month periods ended June 30, 2014 and 2013.

	For the Six Months ended June 30,		For the Year Ended December 31,		
	2014	2013	2013	2012	2011
	(thousands of Ps.)		(thousands of Ps.)		
Net cash flows provided by operating activities	165,901.1	116,234.6	227,618.4	269,297.9	133,568.5
Net cash flows used in investing activities	(461,889.8)	(532,686.2)	(1,015,364.4)	(858,322.7)	(862,040.2)
Net cash flows (used in) provided by financing activities	(73,737.6)	1,777,711.9	1,933,702.6	576,566.8	397,567.0
Net increase (decrease) in cash, cash equivalents and restricted cash	(369,726.3)	1,361,260.3	1,145,956.5	(12,457.9)	(330,904.7)

Variations in net cash flows provided by operating activities for the six months ended June 30, 2014 and for the years ended 2013, 2012 and 2011 principally reflect the increase in consolidated operating income stemming from the

number of room nights sold as a result of the larger volume of available rooms for rent, as well as a consistent increase in RevPAR across our owned, co-owned and leased hotels.

Variations in net cash flow used in investing activities for the six months ended June 30, 2014 and for the years ended 2013, 2012 and 2011 primarily reflect our continued capital investments in the construction and equipment of new hotel developments, the acquisition of land sites for future hotel developments primarily in Mexico but also in Colombia and Chile, the acquisition of certain subsidiaries, and capital improvements in Established Hotels in each of the specific years.

Variations in net cash flows provided by financing activities for the six months ended June 30, 2014 and for the years ended 2013, 2012 and 2011 reflect the equity contributions from our partners in co-owned hotels, debt financing put in place for the completion of new hotel developments and the financing of Established Hotels for each of the specific years, which was partially offset by acquisitions of certain non-controlling interests in co-owned hotels and repayments of borrowings. In 2013, the variation also reflects the proceeds obtained from our initial public offering in June 2013.

Based on current operating results, we believe that cash flow from operations and other sources of liquidity, including the proceeds from our initial public offering and the global offering, committed capital contributions from our partners in co-owned hotels and borrowings under our credit facilities, will be adequate to meet anticipated requirements for working capital, capital expenditures, interest payments and scheduled principal payments for the foreseeable future.

Capital Expenditures

Expenditures that result in an increase in the value of our hotel properties or in future cash flows are treated as capital expenditures. During 2014, we expect to make aggregate capital investments of approximately Ps.1,400 million for the construction of and equipment related to new hotel developments, acquisition of land sites for future hotel developments primarily in Mexico and, to a lesser extent, for maintenance expenditures and replacement of equipment used by properties in operation.

During the first six months of 2014, we made aggregate capital expenditures of Ps.483.1 million primarily related to the following:

- the construction and equipment costs related to developing 16 new hotels in Mexico, which are expected to begin operating in 2014, as well as investments in land sites, construction, equipment, permits and licenses for hotel openings planned for 2015 and 2016—as of the date of this offering memorandum, we have a total of 22 projects in various stages of development and construction;
- the contracting for or acquisition of land sites for future hotel developments across various cities in Mexico; and
- to a lesser extent, expenditures related to maintenance and equipment replacement for properties in operation.

During 2013, we made aggregate capital expenditures of Ps.986.9 million primarily related to the following:

- the construction and equipment costs related to placing in operation 10 new hotels in Mexico and one new hotel in Colombia, as well as the continued construction for new hotel openings planned for 2014;
- the contracting for or acquisition of land sites for future hotel developments across various cities in Mexico; and
- to a lesser extent, expenditures related to maintenance and equipment replacement for properties in operation.

During 2012, we made aggregate capital expenditures of Ps.875.6 million primarily related to the following:

- the construction and equipment costs related to placing in operation eight new hotels in Mexico and one new hotel in Costa Rica, as well as continued construction for new hotel openings planned in 2013, including our mixed-use project in Santa Fe, Mexico City.

- the contracting for or acquisition of land sites for future hotel developments across various cities in Mexico, as well as five sites in Chile and in Medellín and Barranquilla, Colombia; and

- to a lesser extent, expenditures related to maintenance and equipment replacement for properties in operation.

During 2011, we made aggregate capital expenditures of Ps.875.2 million, primarily related to the following:

- the construction and equipment costs related to placing in operation 12 new hotels in Mexico and initiation of construction on our first property outside of Mexico, a *City express* hotel in San Jose, Costa Rica;

- the engineering work associated with the our mixed-use project in Santa Fe, Mexico City;

- the acquisition of land sites for future hotel developments acquisition in Mexico and in Bogotá and Cali, Colombia; and

- to a lesser extent, expenditures related to maintenance and equipment replacement for properties in operation.

Indebtedness

We have several long-term bank loans, which are denominated in Mexican pesos, U.S. dollars and Chilean pesos, obtained from various Mexican and international financial institutions. As of June 30, 2014, the total outstanding principal and interest in respect of these bank loans totaled Ps.2,060.0 million. These loans were obtained directly by individual subsidiaries formed to own our interest in a particular owned or co-owned hotel. The financial obligations of each subsidiary are secured, depending on the lender, by: (i) a civil and a commercial mortgage; (ii) a civil mortgage and a pledge without transfer of possession; or (iii) a guaranty trust and a pledge without transfer of possession, in each case on all real property of the relevant subsidiary. As of June 30, 2014, the mortgages securing these loans correspond to 29 owned hotels and 23 co-owned hotels. The book value of the assets that guarantee the loans was Ps.4,353.6 million as of December 31, 2013, representing 58.7% of our total assets at that time. Generally, one of our subsidiary holding companies, Inmobiliaria Hotelera City Express, S.A. de C.V., also acts as joint obligor under the loans issued to our subsidiaries.

Pursuant to the terms of the loans entered into by our subsidiaries, such subsidiaries must comply with various financial and other covenants, the terms of which may limit the ability of our subsidiaries to: (i) enter into transactions with affiliates; (ii) incur additional financial obligations; (iii) create liens on assets; (iv) enter into mergers or divestitures without the prior approval of the relevant creditor; or (v) become guarantors of or jointly liable for any financial indebtedness, among other requirements and limitations. These loans may include financial covenants such as leverage ratios (calculated by dividing total liabilities by total equity), interest coverage ratios (calculated by dividing gross operating income plus depreciation by net interest) and debt coverage ratios (calculated by dividing gross operating income plus depreciation by the current portion of long-term total debt plus interest paid). Certain of our subsidiaries are also limited in their ability to pay dividends to us. The relevant covenants either (i) prohibit dividend payments by our subsidiaries, (ii) allow dividend payments so long as the relevant subsidiary and joint obligor are in compliance with their respective financial or other covenants, or (iii) require prior consent of the relevant creditor. As of the date of this offering memorandum, we were in compliance with (or received waivers in respect of) all obligations under our loan agreements.

The following table sets forth information regarding our consolidated debt by lender as of June 30, 2014. The applicable interest rate and maturity date in the following table varies according to the individual loan or line of credit.

	Outstanding principal amount		Interest rate(s)	Maturity date(s)
	(US$)	(Ps., unless otherwise specified)		
HSBC[1]	53,456,741	694,937,634	TIIE +1.90%-2.60%	2015, 2019
Banamex	12,729,505	165,483,559	TIIE + 2.00%	2023
BBVA Bancomer	2,187,071	28,431,929	TIIE +1.95%-2.00%	2017, 2020
Banorte	1,253,519	16,295,747	TIIE +1.96%-2.85%	2017, 2018
Bancomext[2]	34,537,579	448,988,535	TIIE +2.25%-3.25%	2016, 2020, 2021, 2022, 2023
Scotiabank	5,681,311	73,857,039	TIIE +2.20%	2015, 2016, 2020
Banco Santander	701,333	9,117,330	TIIE +2.75%	2017
Metlife	6,232,986	81,028,820	8.88%	2019
International Finance Corporation	13,805,304	179,468,954	TIIE +2.67%	2022
International Finance Corporation and Deutsche Investitions- und Entwicklungsgesellschaft GmbH[3]	10,771,921	140,034,974	LIBOR +4.70%	2023
CorpBanca[4]	6,912,179	89,858,327	5.20%, 8.05%	2014, 2015
Actinver	9,230,769	120,000,000	TIIE +2.5%-3.00%	2015, 2018
Total outstanding principal amount	157,500,218	2,047,502,848		
Interest payable	964,009	12,532,115		
Total outstanding principal	158,464,228	2,060,034,963		

(1) Includes Ps.689.5 million at TIIE+1.90% maturing in 2019 and Ps.5.5 million at TIIE+2.60% maturing in 2015. See Note 11 to our Interim Financial Statements.

(2) Includes Ps.264.2 million at TIIE+2.25% maturing in 2021 and 2023, Ps.69.1 million at TIIE+2.33% maturing in 2022, Ps.6.3 million at TIIE+2.75% maturing in 2016 and Ps.98.8 million at TIIE+3.25% maturing in 2020 and 2021. See Note 11 to our Interim Financial Statements.

(3) Denominated in U.S. dollars. The equivalent amount in pesos was calculated based on the exchange rate as of June 30, 2014 of Ps.13.00 per US$1.00.

(4) Denominated in Chilean pesos or Chilean UF (*Unidades de Fomento*). The equivalent amount in pesos was calculated based on the exchange rate as of June 30, 2014 of 42.4 Chilean pesos per Ps.1.00.

We also had Ps.420.6 million and US$19.1 million as of December 31, 2013, undisbursed under committed lines of credit related to the development of hotel projects in Mexico and Colombia.

This section summarizes the principal terms of certain credit agreements entered into by us. It is only a summary and is not intended to describe all the terms of such credit agreements that may be material.

Contractual Obligations

The following table sets forth our material contractual obligations as of June 30, 2014.

	Amount payable by period			
	1 to 365 days	1 to 5 years	More than 5 years	Total
	(thousands of Ps.)			
Non-interest bearing debt	60,520.1	-	-	60,520.1
Variable and fixed interest rate debt, including interest projected at a weighted average interest rate of 5.65%.	238,508.0	925,366.9	1,530,536.2	2,694,411.1
Derivative financial instruments	-	-	20,752.2	20,752.2
Total	299,028.1	925,366.9	1,551,288.4	2,775,683.4

Risk Management

In the ordinary course of our business, we are exposed to various market risks that are beyond our control, including fluctuations in interest rates and foreign exchange rates, and which may have an adverse effect on the value of our financial assets and liabilities, future cash flow and income. As a result of these market risks, we could suffer a loss due to adverse changes in interest rates or foreign exchange rates.

Our risk management policy seeks to assess loss potential and the related consolidated impact and to mitigate our exposure to fluctuations in interest rates and foreign exchange rates. We seek to minimize such risks by using derivative financial instruments. Our planning and finance team, along with our corporate treasury, coordinates the risk management strategy of our subsidiaries as well, by securing access to international and domestic credit markets and by monitoring and managing internal financial risks based on internal risk reports, which analyze exposure based on degree and magnitude of risk. Our use of financial derivatives is governed by the recommendations and policies issued by the Planning and Finance Committee, which provides guidelines on managing currency risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investment of excess liquidity. Our management regularly reports to the Planning and Finance Committee on compliance with such guidelines and exposure limits. As we expand into markets outside of Mexico, we have updated, and expect to continue to update, our risk management strategy to reflect our altered exposure, particularly to exchange rates.

We measure our market risk exposures on a net basis, as we generally seek direct hedging of our financial exposure through netting our financial assets and liabilities prior to entering into a hedging strategy using derivative instruments. In accordance with our policies, we do not enter into or trade financial instruments or derivatives for speculative purposes. For more information on the use of derivative financial instruments, see Notes 8 and 16 to our 2013/2012 Audited Financial Statements.

Exchange Rates

We experience exchange rate risk in respect of cash, accounts receivables and bank debt denominated in currencies other than the functional currency of the relevant borrower subsidiary (principally U.S. dollars). These amounts are affected by periodic fluctuations relative to the Mexican peso, and, as a result, such fluctuations affect our results of operation, financial position and cash flows.

Approximately 98.7% of our revenues and 97.2% of our expenses for 2013 were in Mexican pesos. As of December 31, 2013, we had US$10.8 million (approximately Ps.140.0 million) of financial liabilities denominated in U.S. dollars, and approximately Ps.89.9 million of financial liabilities denominated in Chilean pesos related to a land financing facility, for a total of US$18.3 million. We are also subject to foreign exchange risk due to our foreign

subsidiaries, including our operating subsidiaries in Costa Rica, Colombia and Chile. For additional information on our exposure to risk related to exchange rate fluctuations and a sensitivity analysis, see Note 18 to our 2013/2012 Audited Financial Statements.

We naturally hedge exchange rate risk to a certain extent by maintaining cash balances in U.S dollars to offset the liabilities incurred in U.S. dollars. Each time we enter a market outside of Mexico, our exposure to exchange rate risk changes, and we adjust the manner in which we value and manage such risks. We intend for our policy with respect to exchange rate risk to respond to the market risk, address the possibility of utilizing derivatives in order to mitigate such risk and create certainty with respect to cash flows generated from our international operations.

The following table summarizes our financial assets and liabilities denominated in U.S. dollars as of December 31, 2013, 2012 and 2011, and June 30, 2014 and 2013.

	As of June 30,		**As of December 31,**		
	2014	**2013**	**2013**	**2012**	**2011**
	(thousands of US$)		**(thousands of US$)**		
Financial assets	6,654.2	2,062.3	9,728.7	3,624.2	14,671.2
Financial liabilities	(21,887.0)	(8,012.2)	(18,269.0)	(4,686.6)	(5,790.1)
Net exposure	(15,232.8)	(5,949.9)	(8,540.3)	(1,062.4)	8,881.1

Interest Rates

Many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control contribute to interest rate risk.

Our exposure to interest rate risk arises primarily from variable rate interest-bearing financial liabilities incurred by our subsidiaries. As of June 30, 2014, we had a total Ps.1,876.6 million in financial liabilities with variable interest rates. In order to manage our interest rate exposure, certain of our subsidiaries have entered into swaps and caps.

As of June 30, 2014, we had entered into interest rate hedges structured as cap transactions with HSBC, Credit Suisse, BBVA Bancomer and Banco Santander with interest rates at 28-day or 91-day TIIE plus an applicable margin ranging from 6.0% to 9.0% and an aggregate fair value of Ps.0.17 million. As of June 30, 2014 we had entered into a swap transaction with HSBC, terminating in 2017 with an interest rate at 28-day TIIE plus 5.24% and an aggregate fair value of Ps.20.7 million.

All derivative financial instruments have been classified as held for trading and hedge accounting has not been applied. We do not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

We measure the fair value of our derivative financial instruments by discounting future cash flows based on the applicable curve or pricing model at the period-end and the credit risk of the respective underlying agreement. Our interest rate swaps are measured at the discounted present value of estimated future cash flows based on yield curves from the quoted interest rates. Our interest rate caps are valued using the valuation method used for the calculation of options, the Black-Scholes formula, which uses a differential equation that includes such variables as the spot price of the underlying agreement, maturity, price volatility, the national interest rate and the foreign interest rate. Both are Level 2 valuations. Except as otherwise indicated in our Financial Statements, we believe that the amounts of our assets and liabilities recognized at their amortized costs reflect their fair value. For more information on the use of financial instruments and risk management, see Note 16 to our 2013/2012 Audited Financial Statements and Note 8 to our Interim Financial Statements.

Internal Controls

We have internal control policies and procedures in place. Our Chief Executive Officer, through our Chief Financial Officer, our Chief IT and Systems Officer and our Chief Operating Officer, is responsible for establishing and maintaining adequate mechanisms for internal control to help ensure that our policies and objectives are being met, as well as to promote operational efficiency. Our Audit Committee, which is comprised of directors considered independent under Mexican law, is assigned to, among other things, verify the adequacy and implementation of our internal controls, with the assistance of internal and external auditors.

With respect to our internal audit process, our Audit Committee is responsible for approving our annual internal and external audit plan, which is intended to ensure that our internal controls address risks that we have identified in connection with our business. We then prepare quarterly reports evaluating the results of our internal audit process and internal control reviews and tests. Our Audit Committee also assists our Board of Directors in evaluating, appointing and removing external auditors, taking into consideration the independence and professionalism of the relevant independent firm. Our external auditors are invited to attend to our Audit Committee meetings and Board of Directors meetings, where they present periodic reports addressing developments and their observations with respect to our internal controls. In addition, our Corporate Practices Committee assists our Board of Directors in monitoring compliance with our corporate governance practices and Code of Ethics, examining claims related to violations of such code and authorizing transactions with related parties, among other things.

Critical Accounting Policies

In applying our accounting policies, which are described in Note 4 to our 2013/2012 Audited Financial Statements, our management makes judgments, estimates and assumptions about certain amounts of assets and liabilities included in the financial statements and their related disclosures. The estimates and associated assumptions are based on historical experience and other factors deemed relevant. Actual results could differ from those estimates.

Critical judgments in applying accounting policies

Consolidation of subsidiaries. Certain investments in entities in which we have at least a 50.0% shareholding are consolidated in our financial statements because we have determined that we: (i) have power over the relevant activities of the investee; (ii) are exposed, or have rights, to variable returns from our involvement with the investee; and (iii) have the ability to use our power to affect our returns. In our management's judgment, we control the subsidiaries' relevant activities through agreements with the shareholders and operating contracts executed. These contracts contain potential voting rights whereby we may acquire shares owned by third parties, which could be exercised under certain circumstances.

Accounting estimates

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period of the revision and future periods if the revision affects both current period and subsequent periods.

Revenue recognition for customer loyalty programs. In applying its judgment, our management considers the detailed criteria for the recognition of revenue with respect to loyalty programs we offer our guests as set forth in IFRIC 13 *Customer Loyalty Programs*. In particular, we determine when to recognize revenue related to a customer loyalty program based on whether we have rendered the related service. Accounting for customer loyalty programs is generally within the line of deferred revenue, in our consolidated statement of financial position, until the customer redeems the award and the revenue is earned.

Valuation of income taxes. In the determination of deferred tax, we estimate the certainty of generating taxable income in future periods in order to be able to obtain the benefit generated by our deferred tax assets, using projections of future taxable income to assist in this analysis. Impacts of changes in those projections could affect the realizability of the deferred tax assets in our consolidated statement of financial position and any related deferred tax benefit or expense for the period.

Estimated useful lives and residual values of fixed assets. Through our internal experts' opinion within our development area, we evaluate, at the end of each reporting period, the useful life and the residual values of fixed assets, considering their operational experience and the characteristics of the assets. Impacts to changes in those estimates could affect the value of property, equipment and leasehold improvements and the related depreciation expense for the period.

New Accounting Principles

The following new and revised IFRS policies have been issued but were not effective as of June 30, 2014, for which reason they have not yet been adopted by us as of June 30, 2014:

IFRS	Effective Date
Improvement to IAS 19—Defined Benefit Plans: Employee Contributions	July 1, 2014
Annual Improvements to IFRSs 2010–2012 Cycle	July 1, 2014
Annual Improvements to IFRSs 2011–2013 Cycle	July 1, 2014
IFRS 14—Regulatory Deferral Accounts	January 1, 2016
Improvements to IFRS 11—Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
Improvements to IAS 16 and IAS 38—Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
Improvements to IAS 16 and IAS 41—Agriculture: Bearer Plants	January 1, 2016
IFRS 15—Revenue from Contracts with Customers	January 1, 2017
IFRS 9—Financial Instruments	January 1, 2018

INDUSTRY OVERVIEW

We believe that the strength of the Mexican economy, the country's favorable demographics and the ongoing recovery and growth in the volume of domestic travel have created a strong backdrop for tourism in Mexico. Furthermore, we believe that the highly fragmented hotel industry in Mexico and the low concentration of hotel rooms per capita, helps create an attractive opportunity for us to continue our expansion as one of the most recognizable hotel brands in Mexico.

The Mexican Economy

Travel in general and business travel in particular is highly correlated to economic activity and growth. As a result, we believe Mexico's lodging industry should benefit from the ongoing economic expansion and the solid fundamentals underpinning the Mexican economy.

Mexico has generally enjoyed stable and positive macroeconomic performance since the implementation of a wide range of reforms to liberalize the Mexican economy and open it to foreign trade and investment in the late 1980s. Since the 1995 currency and banking crisis, Mexico's GDP has grown at a compound annual growth rate of approximately 2.9% per year in real terms, supported by the fiscal and monetary policies implemented by the Mexican government. Mexico currently has strong macroeconomic indicators including a low government debt to GDP ratio, a stable current account balance, low inflation and unemployment levels and stable interest rates that have provided confidence to investors and attracted foreign direct investment.

The following table sets forth real GDP growth, inflation and average unemployment rate for Mexico and select other countries and regions for the period 2011 to 2014.

	Real GDP Growth				**Inflation**				**Average Unemployment Rate**			
	2011	2012	2013	2014*	2011	2012	2013	2014*	2011	2012	2013	2014*
Mexico	4.0	4.0	1.1	3.0	3.8	3.6	4.0	4.0	5.2	5.0	4.9	4.5
United States	1.8	2.8	1.9	2.8	3.1	1.8	1.2	1.5	8.9	8.1	7.4	6.4
Brazil	2.7	1.0	2.3	1.8	6.6	5.4	6.2	5.9	6.0	5.5	5.4	5.6
Chile	5.7	5.5	4.2	3.6	3.3	3.0	1.8	3.5	7.1	6.4	5.9	6.1
Colombia	6.6	4.2	4.3	4.5	3.4	3.2	2.0	1.9	10.8	10.4	9.7	9.3
Latin America	4.1	2.6	2.5	1.9	6.5	5.9	7.0	8.8	7.9	7.6	7.5	7.8
OECD	1.8	1.5	1.3	1.9	2.6	2.0	1.5	1.8	8.3	8.4	8.4	7.9

* Estimates from the International Monetary Fund for Mexico, the United States, Brazil, Chile and Colombia and from Global Insight for Latin America and the OECD.

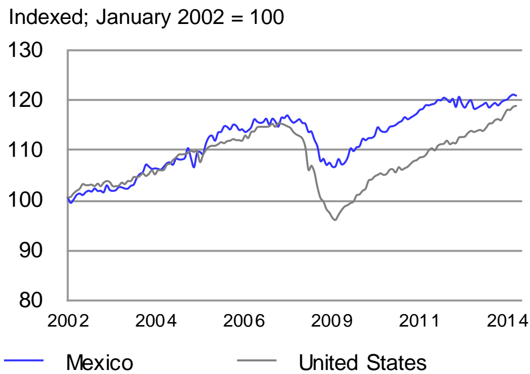
Source: International Monetary Fund, Global Insight, INEGI

After suffering a GDP contraction of 4.7% in real terms in 2009, a product of the global financial crisis, Mexico's economy has resumed growth with real GDP increases of 5.1% in 2010, 4.0% in both 2011 and 2012, and 1.1% in 2013. In each of these last two years, Mexico's real GDP grew faster than that of the United States, Brazil, and most OECD countries. The July 2014 edition of the monthly survey of private sector economic specialists conducted by Banco de México reveals average expected real GDP growth rates for the Mexican economy of 2.6% in 2014 and 3.9% in 2015.

Recently, Mexico's economic expansion has been driven to a large degree by growth in manufacturing, industry, construction and agriculture. The Mexican industrial and manufacturing sector, in particular, has become increasingly competitive globally as a result of Mexico's low and stable labor and freight costs, its large skilled labor force, the diminishing wage gap with China, its geographic proximity to important consumer markets and its low trade barriers as evidenced by the number of countries with which Mexico has free trade agreements. As of June 2014, Mexico's industrial production index had increased by 13.5% from its low during the financial crisis in May 2009, outgrowing the industrial production index of the United States in that period. These trends have been reflected in the increase in investment from domestic and multinational companies, and we expect that confidence in the industrial sector and expectations of further growth will contribute to increasing Mexico's importance as one of the principal manufacturing and logistics centers in North America.

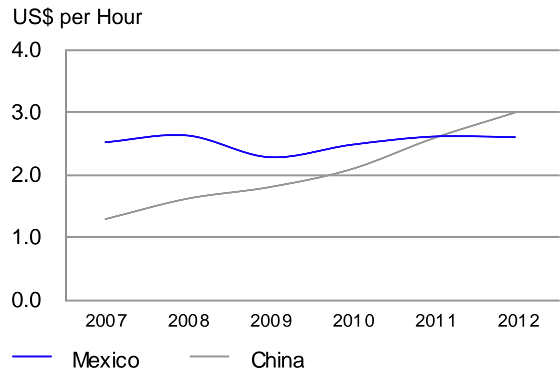
The following charts depict Mexico's macroeconomic performance along several key economic indicators, for the years indicated.

Quarterly Industrial Production Index



Source INEGI

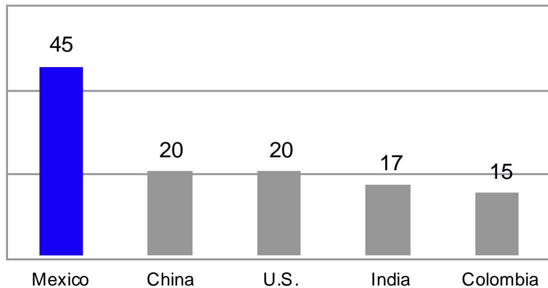
Manufacturing Sector Wages



Source INEGI, National Bureau of Statistics of China

Free Trade Agreements

# of Countries Covered by Free Trade Agreements

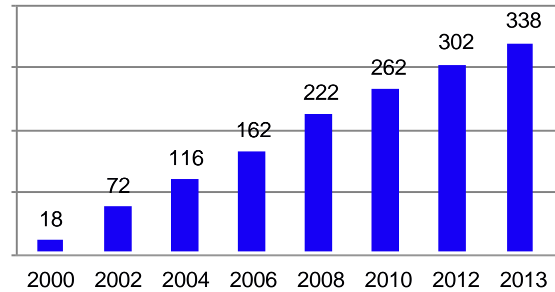


Source Each country's Ministry of Economics / Foreign Affairs

Cumulative Foreign Direct Investment into Mexico

Since 2000

US$ Billion

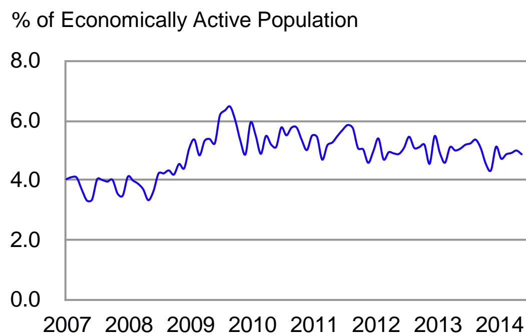


Source Secretaría de Economía

Labor market developments are key drivers for the lodging industry, and are especially relevant to us because of our focus on the value conscious domestic business traveler. Since September 2009, when Mexico's unemployment rate peaked at 6.4% the number of permanent workers affiliated to Mexico's Social Security Institute ("IMSS") increased by approximately 4.6 million, as reported by IMSS. In the last three years, the unemployment rate has been approaching pre-crisis levels, reaching 4.8% in June 2014, according to INEGI. Demographic trends in Mexico are also favorable and are expected to be an important driver of long-term economic growth. Mexico's population is relatively young, with over 50% of the population under the age of 29 and approximately 77% under the age of 45, creating a large opportunity to increase Mexico's labor force. According to the OECD, Mexico's fertility rate, defined as the number of children born to women aged 15 to 49, decreased from 5.0 in 1980 to 2.1 in 2010, compared to 1.9 in the United States and 1.7 for the average of OECD countries in 2010. A lower fertility rate is expected to decrease Mexico's dependency rate, defined as the percentage of the population under the age of 15 and over the age of 65, from 39% in 2000 to 31% in 2020, which is expected to increase disposable income and favor consumption trends.

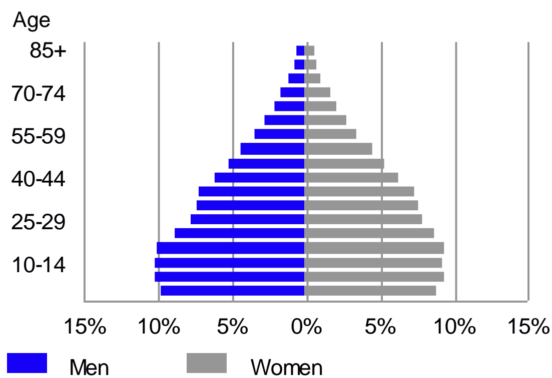
The following charts depict the unemployment rate in Mexico for the years indicated, and the distribution of the Mexican population by age, as of 2010, according to INEGI's most recent demographic census.

Unemployment Rate in Mexico



Source INEGI

Mexican Population Distribution by Age
Based on 2010 Census

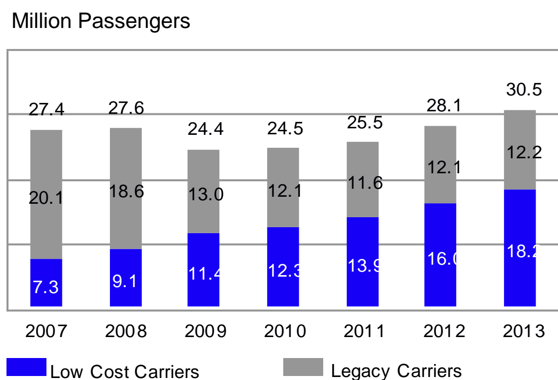


Source INEGI

As a lodging company focused on the limited-service economy and budget segments with a strong presence along the main industrial and commercial hubs, including the NAFTA manufacturing, textile, industrial, logistics, energy, commercial and exporting corridors, the agricultural corridor, the U.S. border and the petrochemical corridor, we believe we are well positioned to benefit from an increase in economic activity in Mexico. We expect that the ongoing growth of Mexico's middle class population, decreasing unemployment rates and the increase in business travel accompanying economic activity will translate into greater demand for hotel rooms in our target segments.

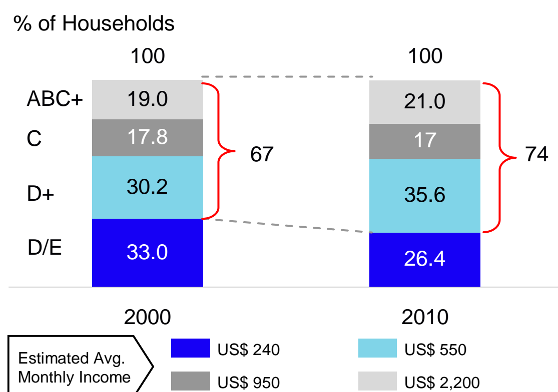
The following charts depict domestic airline passengers in Mexico, for the years indicated, and the distribution of the Mexican population by income, as of 2000 and 2010.

Domestic Airline Passengers in Mexico



Source Secretaría de Comunicaciones y Transportes

Mexican Population Distribution by Income



Source Asociación Mexicana de Agencias de Investigación de Mercado y Opinión Pública, INEGI

Mexico's government has ambitious plans for public investments in infrastructure that, coupled with private sector investments, we believe will further increase communication and accessibility through the improvement and construction of highways, railways and airports. We believe the improved infrastructure will benefit the business sector and continue to foster the expansion of urban business centers. We also believe that this expansion will continue to support increased business travel, resulting in greater demand for hotels with international quality standards, a broad geographic footprint and brand recognition across Mexico. We believe that our geographic footprint is well aligned

with the main hubs of economic activity in Mexico, as almost 69% of our rooms in Mexico as of June 30, 2014 were located in the 15 most economically active states that together account for approximately 77% of Mexico's GDP, as depicted in the following table.

State	% of Mexican GDP (2012)	% of Mexican Population (2010)	% of Hoteles City Rooms (June 2014)	No. of Hoteles City Hotels (June 2014)
Mexico City	16.4%	7.9%	8.4%	8
Mexico State	9.2%	13.5%	4.6%	4
Nuevo León	7.2%	4.1%	2.4%	2
Jalisco	6.3%	6.5%	3.4%	3
Veracruz	5.4%	6.8%	7.1%	6
Campeche	5.0%	0.7%	4.6%	4
Guanajuato	3.9%	4.9%	5.8%	5
Tabasco	3.5%	2.0%	2.3%	2
Coahuila	3.4%	2.4%	3.5%	3
Puebla	3.3%	5.1%	6.1%	5
Tamaulipas	3.0%	2.9%	3.4%	3
Sonora	3.0%	2.4%	4.6%	4
Baja California Norte	2.8%	2.8%	6.3%	5
Chihuahua	2.8%	3.0%	4.6%	4
Michoacán	2.3%	3.9%	1.8%	2
Sinaloa	2.1%	2.5%	3.8%	3
Querétaro	2.0%	1.6%	3.0%	3
San Luis Potosi	2.0%	2.3%	3.7%	3
Chiapas	1.8%	4.3%	2.6%	2
Hidalgo	1.7%	2.4%	1.1%	1
Oaxaca	1.6%	3.4%	2.2%	2
Quintana Roo	1.5%	1.2%	4.6%	4
Yucatán	1.5%	1.7%	1.3%	1
Durango	1.2%	1.5%	1.2%	1
Zacatecas	1.2%	1.3%	1.1%	1
Aguascalientes	1.1%	1.1%	1.3%	1
Baja California Sur	0.7%	0.6%	1.3%	1
Colima	0.6%	0.6%	1.2%	1
Mexico Total	**96.2%**	**93.4%**	**97.3%**	**84**
Top 15 States Total	**77.3%**	**69.1%**	**69.0%**	**60**
Costa Rica & Colombia			2.7%	2
Total			**100.0%**	**86**

Source: INEGI, Company Filings

The Mexican Lodging Industry

Driven by a dynamic business environment in Mexico, which is evidenced by an increase of domestic and foreign private investment, rising per capita income, growth in domestic consumption, and an expanding middle class, we believe the outlook for the Mexican lodging industry is strong and will support our continued growth. We also believe our prospects will be enhanced by a favorable supply environment and the poor quality of our competitors' offerings, which in general fail to meet international standards. Due to a general scarcity of efficiently priced capital for new hotel developments in our segments, we expect new hotel construction to remain steady over the near-term. As a result, we believe lodging fundamentals will remain supportive in Mexico and that we, as one of the most recognizable lodging brands, are well-positioned in light of the highly fragmented nature of the Mexican lodging industry and of our segments in particular.

Hotels can be classified by their physical properties and service offerings into full-service, select-service and limited-service hotels.

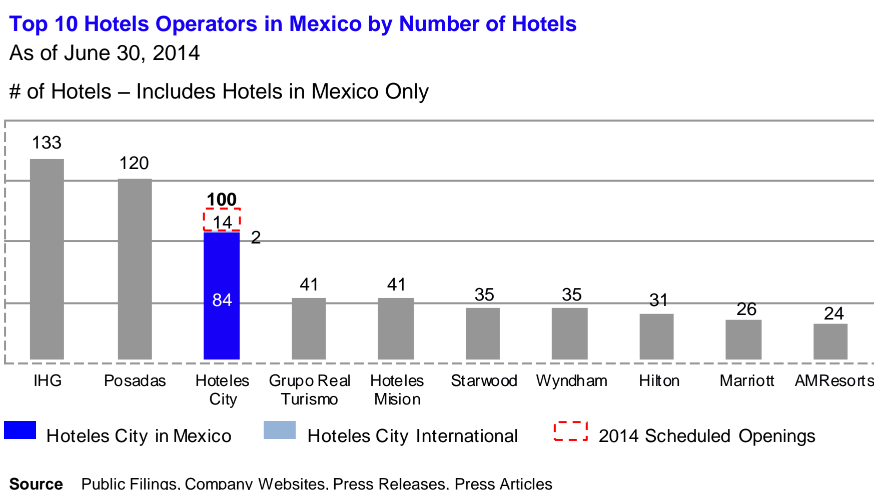
- Full-service hotels are characterized by relatively large and well-appointed rooms, a robust food and beverage offering, meeting space capable of accommodating corporate and social events, and varied additional services, such as spas, 24-hour room service, valet parking, bell-captain service and concierge service. ADRs for full-service hotels in Mexico range from Ps.1,500 and above.

- Select-service hotels offer rooms and certain additional services necessary for travelers in upper-level management, particularly with respect to room size, quality of facilities and furnishings and food and beverage services. Hotels in this category often include a restaurant with more limited selection and service hours than those typical of full-service hotels. Rooms tend to be smaller than those of full-service hotels with more modest furnishings. ADRs for select-service hotels in Mexico range from Ps.980 to Ps.1,800.

- Limited-service hotels tend to have smaller rooms equipped with furnishings and amenities that are strictly necessary for the business traveler, although they may offer certain additional services including a fitness room, a pool, a smaller selection of food and beverage products for preparation by the guest and smaller meeting spaces. ADRs for limited-service hotels in Mexico range from Ps.550 to Ps.1,700.

As of June 30, 2014, we were the third largest hotel chain in Mexico in terms of total number of hotels and rooms system-wide, behind only InterContinental Hotels Group (IHG) and Grupo Posadas. We are also the largest chain focused exclusively on the limited-service segment. With the exception of IHG, international hotel operators are well behind national hotels in terms of presence in Mexico. International hotel operators typically follow growth strategies in which hotels are primarily developed, financed and owned by third parties, and the chain focuses solely on the franchising of the hotels. This strategy has proven to be slow to advance and difficult to execute in Mexico, since it relies on third parties for the development of the properties and the execution of their growth strategies.

The following chart depicts the largest hotel chains in Mexico by number of hotels in Mexico, as of June 30, 2014.



Since our founding in 2002 and our first hotel opening in 2003, we have significantly outpaced the Mexican lodging industry in terms of number of hotels opened each year. We believe that our growth is due to having an expansion plan that is based on our capacity to deploy our own and third party capital for the development of our hotels. Furthermore, we believe that our growth is underpinned by our strategy of operating an integrated business platform in the lodging industry. From the end of 2006 to the end of 2013, we opened 62 new hotels (60 in Mexico), increasing our number of hotels and rooms at compound annual rates of approximately 22% and 23%, respectively. We believe we were the fastest growing hotel chain in Mexico during this period.

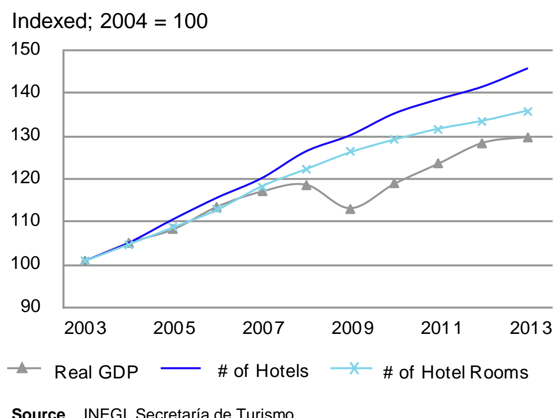
The following chart depicts the growth of selected hotel chains in Mexico, by number and percentage increase of hotels in Mexico from year-end 2006 to year-end 2013.

According to the latest available official data from Mexico's Ministry of Tourism, there were a total 18,199 hotels and 672,296 hotel rooms in Mexico as of the end of 2013. The number of hotels and rooms in Mexico increased at compound annual rates of 3.8% and 3.1%, respectively, from the end of 2003 to the end 2013, outpacing Mexico's GDP, which grew at a compound annual rate of 2.6% in real terms during that same period.

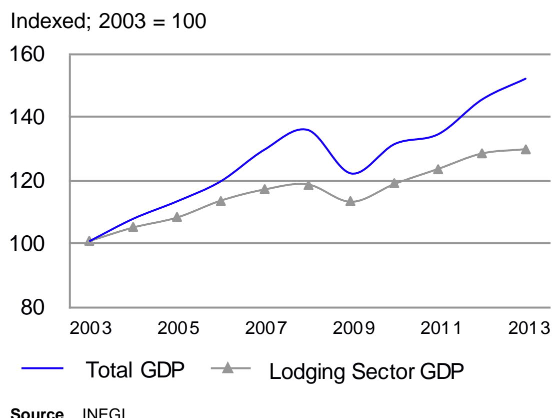
After growing steadily at a compound annual rate of 6.3% in real terms from the end of 2003 to the end of 2008, GDP for the lodging sector in Mexico decreased by 10.3% in 2009 due to the combined effect of the global economic downturn, Mexicana de Aviación's bankruptcy and the H1N1 influenza outbreak that significantly impacted tourism and travel in general in Mexico. However, Mexico's lodging sector has recovered and its GDP has increased at a higher rate than the overall Mexican economy. From the end of 2009 to the end of 2013, the Mexican lodging industry's GDP increased in real terms at a compound annual rate of 5.7%, whereas Mexico's GDP grew at a compound annual rate of 3.5% in real terms during the same period.

The following charts depict Mexican lodging supply and GDP growth and Mexican total and lodging sector GDP growth, for the years indicated.

Mexico Lodging Supply and GDP Growth



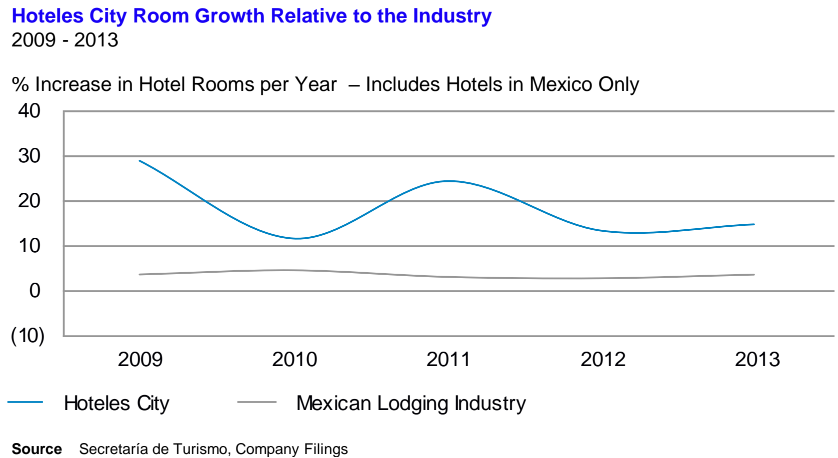
Total and Lodging Sector Real GDP Growth in Mexico



In order to continue gaining leadership in the industry and to take advantage of the growth opportunities in our target segments, throughout the recent economic downturn, we continued to invest in the growth of our hotel network, and we have maintained hotel unit and hotel room growth rates that are above those of the national hotel industry and

our peers. Since our first hotel opened in 2003, we opened an average of one new hotel approximately every 6.8 weeks.

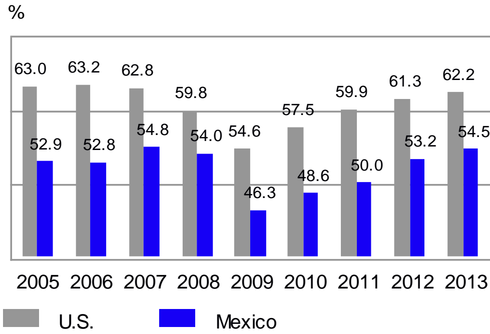
The following chart depicts our room growth relative to the Mexican lodging industry and our peers, for the years indicated.



Pricing in the lodging industry, however, has lagged behind overall prices in the Mexican economy. According to INEGI, the lodging industry price index increased by approximately 19% from the end of 2008 to the end of 2013, compared to an increase of approximately 21% in the Mexican National Consumer Price Index ("INPC") for the same period. In addition, ADRs in Mexico remain below those of the United States and other Latin American countries, indicating that there is still potential for future increases in ADRs in Mexico. Similarly, average occupancy rates in Mexico remain below pre-crisis levels in Mexico and current average occupancy rates in the United States and other Latin American countries. The potential to increase ADRs and occupancy rates represents a significant revenue growth opportunity for the Mexican lodging industry.

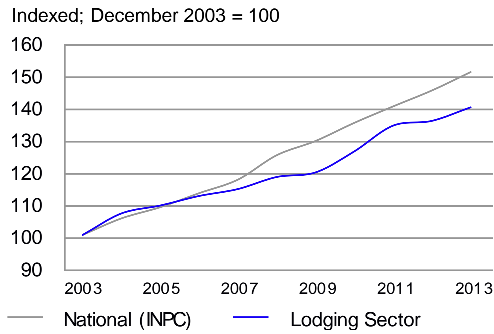
The following charts depict several key economic and operating indicators for the lodging industry in Mexico and internationally, for the year(s) indicated.

Hotel Occupancy Rates in Mexico and the US Throughout the Cycle



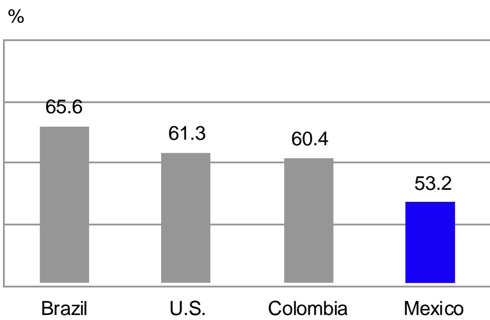
Source Secretaría de Turismo, PwC (http://www.pwc.com/en_US/us/asset-management/hospitality-leisure/publications/assets/pwc-hospitality-directions-lodging-outlook-may-2014.pdf)

National and Lodging Industry Consumer Price Indexes



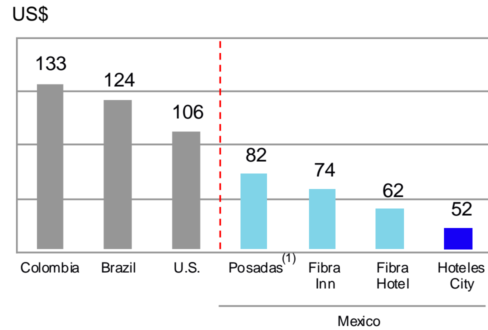
Source INEGI

2012 Average Occupancy Rates Across Countries



Source Secretaría de Turismo, PwC (http://www.pwc.com/en_US/us/asset-management/hospitality-leisure/publications/assets/pwc-hospitality-directions-lodging-outlook-may-2014.pdf), JLL (http://www.latinamerica.jll.com/latin-america/en-us/research/162/lodging-industry-in-numbers-colombia-2013), JLL (http://fohb.com.br/pdf/Hotelaria_em_Numeros_2013.pdf)

2012 Average Daily Rates (ADR) Across Countries



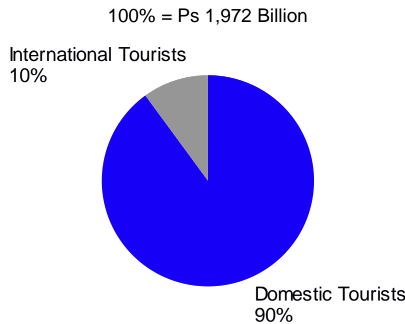
(1) Includes owned and leased hotels

Source Secretaría de Turismo, PwC (http://www.pwc.com/en_US/us/asset-management/hospitality-leisure/publications/assets/pwc-hospitality-directions-lodging-outlook-may-2014.pdf), JLL (http://www.latinamerica.jll.com/latin-america/en-us/research/162/lodging-industry-in-numbers-colombia-2013), JLL (http://fohb.com.br/pdf/Hotelaria_em_Numeros_2013.pdf), Public Filings, Company Data

The following charts depict tourism and lodging spending in Mexico based on the nationality of tourists, for the years indicated.

Tourism Spending in Mexico

2012

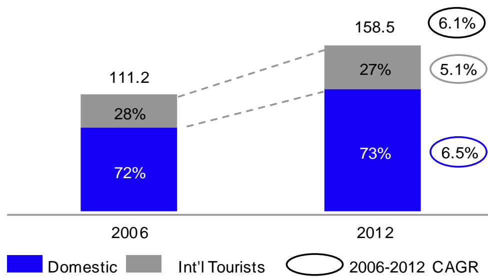


Source INEGI

Lodging Spending in Mexico

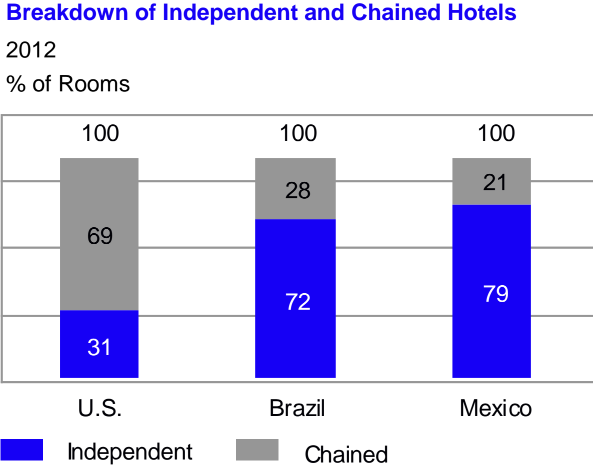
2006 - 2012

Ps. Billion



Source INEGI

The Mexican lodging industry is characterized by being highly fragmented and consisting of predominately independent operators with no brand affiliation. Chain-brand hotels comprise approximately 21% of Mexico's hotel industry in terms of rooms, compared to 69% in the United States and 28% in Brazil, as depicted in the following chart.

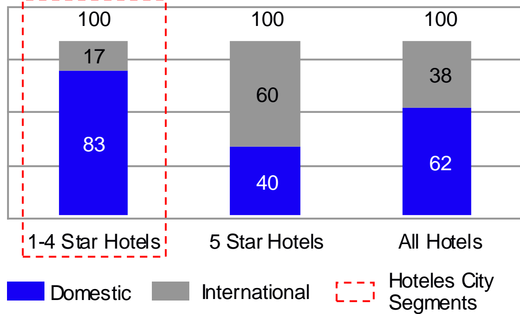


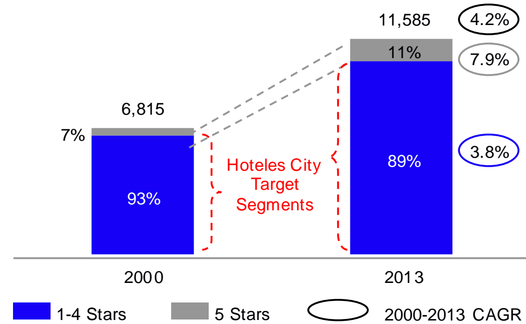
Source PwC (http://www.pwc.com/us/en/asset-management/hospitality-leisure/publications/assets/pwc-hospitality-directions-outlook-tables-may-2014.pdf), JLL (http://fohb.com.br/pdf/Hotelaria_em_Numeros_2013.pdf), Euromonitor

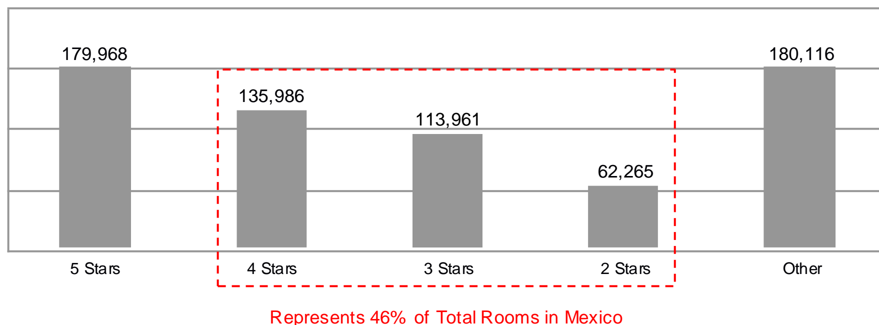
This trend is particularly pronounced in the limited-service economy and budget segments in which we compete. In these segments, local operators with no brand affiliation dominate the landscape and offer varying degrees of room quality, service and hospitality. Independent hotels typically do not comply with international fire and safety standards and have limited marketing and distribution capabilities. We believe that this market dynamic presents us with an attractive opportunity to grow as the largest limited-service hotel operator by substituting obsolete room inventory with more modern hotel product built to an international hospitality standard. We believe this strategy to develop new hotels will be more effective than a strategy focused on acquisitions of pre-existing limited-service hotels, because there is limited availability of attractive hotel properties in this segment and the costs of remodeling and renovation are often high and difficult to predict. Our commitment to maintaining consistency in quality and service across all of our brands and locations, as well as our marketing capabilities and centralized reservation system, position us well for continued growth within our target segments.

By focusing on the limited service segment and targeting value-conscious domestic travelers, we believe we address the majority of hotel demand in Mexico. One- to four-star rated hotels represent close to 89% of all rated hotels in Mexico, according to the Ministry of Tourism. We believe that one- to four-star hotels serve principally the select and limited-service segments that we target. Domestic tourists accounted for approximately 83% of occupied room nights in one- to four-star hotels in 2013, compared to around 40% in five-star hotels. In addition, domestic tourists accounted for approximately 90% of aggregate tourism spending in Mexico in 2012.

The following charts depict occupied room nights and hotel supply in Mexico based on star classification of hotels (as set forth by the Ministry of Tourism), for the year(s) indicated.

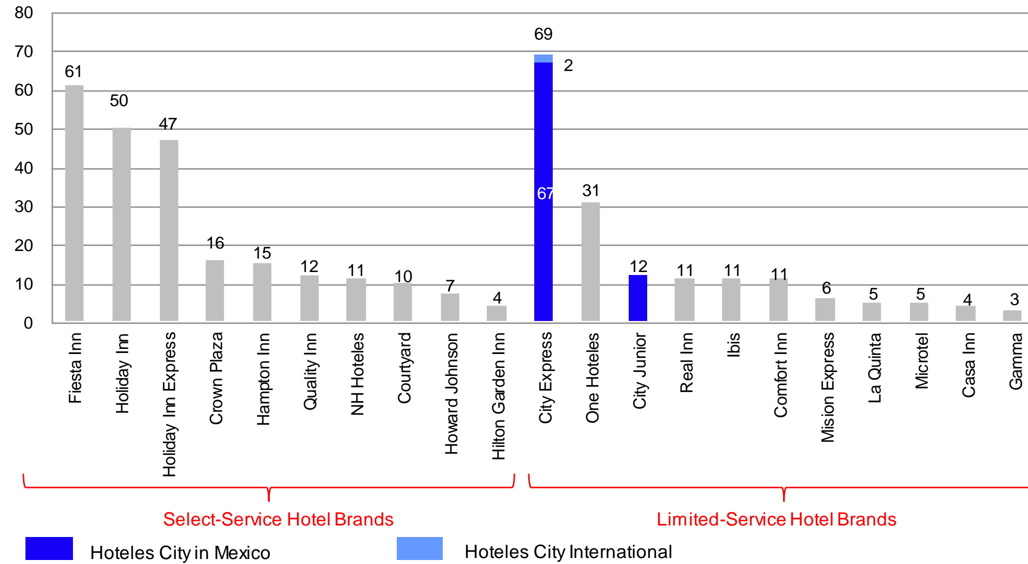




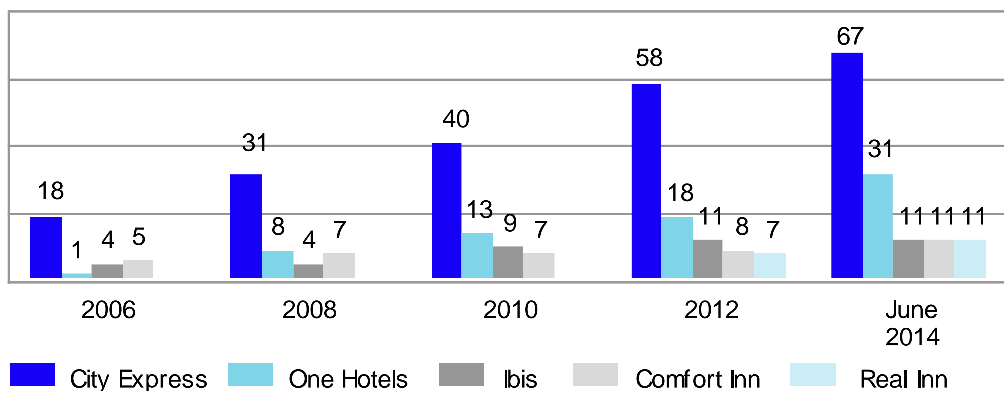


We compete primarily with limited-service hotel brands like One, Ibis, Comfort Inn and Microtel and, to a lesser extent, with select-service hotel chains including Fiesta Inn, Holiday Inn Express, Hampton Inn and Quality Inn. There are currently more than 300 chain-brand limited-service and select-service hotels operating in Mexico.

The following chart sets forth the number of hotels operated by the largest select-service and limited-service hotel chains in Mexico by brand, as of June 30, 2014.



The following chart depicts the growth in chained limited-service hotels in Mexico by number of hotels by chain, for the years indicated.



OUR BUSINESS

Our Company

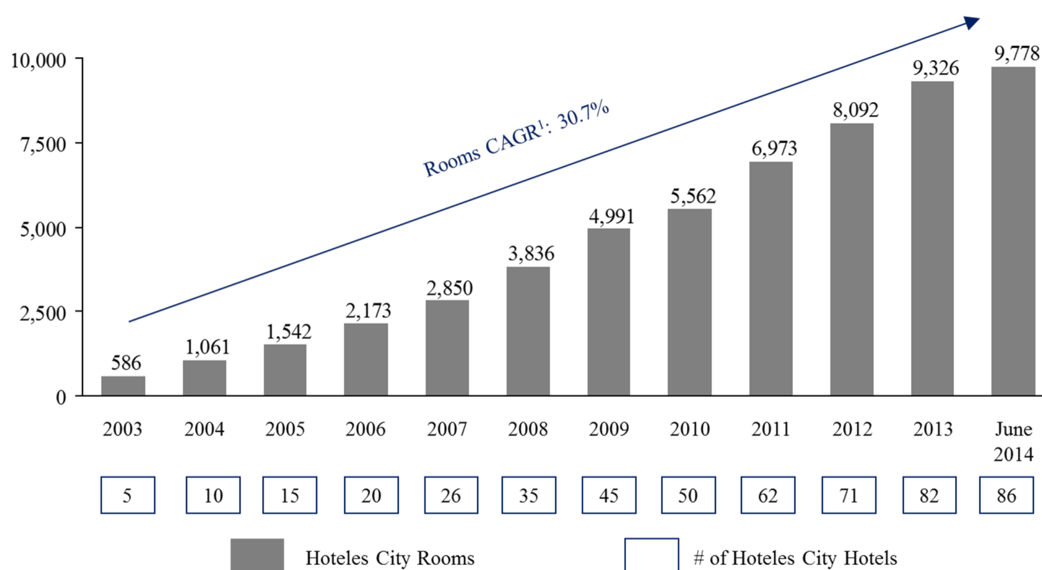
We believe we are the leading and fastest growing limited-service hotel chain in Mexico, based on number of hotels, number of rooms, geographic footprint, market share and revenues. We focus on providing quality, safe and comfortable accommodation at affordable prices across our network of limited-service hotels that primarily target business travelers in the markets where we have a presence. We operate as an integrated hospitality business platform developing, selectively acquiring, owning, managing, marketing and franchising hotels in the economy and budget segments. Although substantially all of our hotels are currently in Mexico, we have begun to expand into target markets in Latin America. We believe our focus on the value-conscious traveler is unique among lodging companies in Mexico, giving us a competitive advantage through specialization in a market that we believe is highly fragmented and underpenetrated by national and international hotel operators. Furthermore, we believe that by implementing international hospitality best practices and an efficient and flexible operating model, we are able to offer differentiated quality and value within our niche market.

Since December 2003, we have expanded, in terms of number of rooms, at a compounded annual growth rate of 30.7%, to 86 hotels under our three brands with 9,778 rooms in operation as of June 30, 2014. In Mexico, we are the third largest hotel chain, the second largest hotel operator and the largest hotel operator within the economy and budget segments, based on number of rooms and hotels. With over 69 hotels in operation, our *City express* brand has more hotels than any other hotel brand in Mexico. We have placed into operation an average of one new hotel every 6.8 weeks since our first hotel opened, which we believe makes us one of the fastest growing hotel chains in Mexico and Latin America. Our hotel network growth rate has accelerated since our initial public offering in June 2013. We have placed into operation an average of one new hotel every 4.0 weeks in the last twelve months. We estimate that we will have placed into operation an average of one new hotel every 2.9 weeks, or a total of 28 new hotels, in the period between our initial public offering in June 2013 and the end of 2014.

During the year ended December 31, 2013, on a per business segment basis we derived 79.6% of our revenues from the operation of our owned, co-owned and leased hotels and 20.4% from the management of our owned, co-owned, leased, managed and franchised hotels, as well as from our franchise and hotel development activities.

Since our initial public offering in June 2013, we have opened a total of 13 new hotels—12 hotels in Mexico and 1 hotel in Colombia—for a total of 1,415 new rooms added during this period. We opened 4 new hotels during the first half of 2014, and we estimate we will place into operation an additional 14 hotels in order to reach approximately 100 hotels by the end of the year.

The following graph illustrates our sustained growth in terms of hotels and room capacity since our first year of operation.



Source: Company Data
1. Compound Annual Growth Rate

As a result of our new-hotel development expertise and our growth trajectory, our hotel inventory has an average age of only 4.8 years, which we believe is among the newest room inventory in the Mexican lodging industry. We have built our hospitality business primarily through the construction of new hotels designed in accordance with our standards and requirements in order to maintain industry-leading margins through an efficient operating structure. We believe this business model differentiates us within the hotel industry and allows our hotels to become operationally profitable at average occupancy rates of approximately 30% at our target ADR.

The following table illustrates our hotels as of June 30, 2014 by year of opening.

	Openings per Year		Cumulative
	Number of Hotels	**% of Total**	**Number of Hotels**
2003	5	5.8%	5
2004	5	5.8%	10
2005	5	5.8%	15
2006	5	5.8%	20
2007	6	7.0%	26
2008	9	10.5%	35
2009	10	11.6%	45
2010	5	5.8%	50
2011	12	14.0%	62
2012	9	10.5%	71
2013	11	12.8%	82
2014[1]	4	4.7%	86
Total	86	100.0%	86

[1] From January 1 to June 30, 2014.

Approximately 37% of our hotels were opened in the 36-month period prior to June 30, 2014 and thus have not completed their ramp-up cycle or achieved target occupancy rates and ADR. We expect to derive increased RevPAR and Adjusted EBITDA margins as these properties transition to Established Hotels and stabilize into mature properties once their target occupancy rates and ADR are reached.

Of our 86 hotels in operation as of June 30, 2014, 84 are located in Mexico, 1 is located in Costa Rica and 1 in Colombia. We are geographically diversified across Mexico with a presence in 28 of Mexico's 32 states, and expect to increase our presence to 29 states by the end of 2014. Our 9,778 rooms in operation as of June 30, 2014 are diversified across our three well-defined hotel brands that serve travelers across the budget and economy segments, with a particular focus on business-oriented travelers. Our flagship brand, *City express*, caters to managers and other business travelers in the economy segment, offering ADRs ranging from approximately Ps.600 to Ps.1,200. Our extended-stay brand, *City Suites*, offers fully equipped apartment-like rooms at a slightly higher ADR (Ps.750 to Ps.1,700) than our *City express* brand, while still offering accommodations typical of the economy segment. *City junior*, our most affordable accommodation option, offers our same hotel services at highly competitive prices with slightly smaller room sizes, and targets non-management employees and other domestic travelers in the budget segment, offering ADRs ranging from Ps.500 to Ps.750. We offer a selection of amenities that are essential for the business traveler, including wireless internet, complimentary breakfast, meeting rooms and business centers, along with fitness centers in our *City express* and *City Suites* hotels.

We believe our accommodations serve travelers in segments in which there is significant demand and strong prospects for growth. Our target customers—the value-conscious domestic travelers—account for approximately 90% of all tourism spending in Mexico, based on information sourced from the Mexican Ministry of Tourism and INEGI. Our hotels are specifically designed to meet the needs of these travelers, which we believe have largely been underserved by existing national and international hotel chains, as well as independent non-branded hotels, in Mexico and elsewhere in Latin America. We also believe we serve travelers in segments in which there is significant growth potential, as much of the existing inventory in this market is obsolete and we offer the option of updated, quality rooms to our target markets. We expect to continue to benefit from the macroeconomic stability and expected continued growth of the economy in Mexico and other target markets in Latin America. In Mexico, we believe that continued public and private sector investment in infrastructure, increased business activity from the most competitive business sectors, including the manufacturing, export and energy sectors, and consolidation of a highly fragmented hospitality industry, among other factors, create a highly favorable environment for the growth and development of our business. Domestic business and leisure travel is driven to a large degree by economic growth. The Mexican government has recently enacted structural reforms targeting the labor, education, energy and telecommunications sectors, among others, that are expected to result in greater economic development. We believe we are well-positioned to benefit from future increases in Mexican GDP, and consequently in travel, by virtue of our high quality standards, broad geographic footprint and strong brand recognition.

The map below illustrates our geographic coverage and exposure to a variety of economic sectors as of June 30, 2014, with properties strategically located in urban and suburban locations along the principal business, logistics, commercial and industrial routes in Mexico, as well as our anticipated openings for 2014 within Mexico.

We believe that locating our properties along the NAFTA manufacturing corridor, the NAFTA agricultural corridor, the U.S.-Mexico border, the mining, industrial, exporting, logistics and petrochemical and energy-related corridors, the aerospace and automotive industrial hubs in central Mexico and the consumer-driven commercial sector of the most important cities in Mexico allows us to benefit from an increase in economic activity and consumer spending in Mexico.

We attribute our success to both our hotel development capabilities and our hotel operating, management and commercial platforms, which are each based on efficiency, convenience and quality. Central to our business model is a disciplined, systematic and streamlined process for identifying potential markets and locations for new hotel openings and for managing the development of our hotels. By outsourcing our construction and engineering-related work to high-quality contractors and service providers and awarding contracts through transparent bidding processes, we mitigate construction risk, create contractor competition and lower costs per room. We believe our in-house project management capabilities are critical to our business and have allowed us to achieve predictable and on-budget costs per room across Mexico and most recently in Costa Rica and Colombia. This project management expertise and the resulting cost per room has allowed us to meet or exceed target rates of return on new investment opportunities. Each potential new hotel development undergoes a detailed analysis across macroeconomic drivers, industry and business sectors and market research that includes demographic and site-specific studies by our in-house market research team and subsequent approval by our investment committee to ensure that developments meet project-specific investment return and capital allocation criteria. We have conformed our room sizes, layouts and FF&E within each brand in order to facilitate efficient and scalable construction and operations of our properties. We also control our hotel management, distribution and commercial platform through our proprietary IT system at our headquarters in Mexico City, enabling us to centrally monitor our hotels in order to capitalize on opportunities and to adjust rates and distribution channels to optimize each hotel's performance while keeping our operating costs low.

We strive to make our operations scalable and as productive as possible, from our hotel staffing to the manner in which we source breakfast items, resulting in a cost-efficient operating structure that we believe has contributed to our strong profitability as measured by an EBITDA margin of approximately 37.0%, as well as an average ROIC above 12.0%, each for our owned and co-owned Established Hotels as of December 31, 2013. As our owned and co-owned

new-construction hotels mature and reach their target occupancy rates and ADRs, we expect their average ROIC to improve as a result of increased RevPAR and EBITDA margin in respect of such properties.

Based on our success over the last twelve years, we intend to expand our presence throughout Mexico and into specific markets within Latin America, such as Colombia and Chile, with our principal focus being growth in the Mexican market. During the next 24 months, we intend to continue to implement a growth strategy that includes development of approximately 37 new-construction hotels, opportunistic and strategic hotel acquisitions, including in Mexico City and other major cities in Mexico, and management of hotels belonging to third parties. We expect that this growth pipeline will add over 4,191 rooms to our inventory, representing an approximate 43% increase over our current number of rooms.

Since opening our first hotel in May 2003 through December 31, 2013, our available room nights and occupied room nights have increased at a compound annual growth rate of 45.4% and 55.3% to 3.0 million and 1.7 million, respectively. For the six months ended June 30, 2014, occupancy, ADR and RevPAR reached 56.5%, Ps.730 and Ps.412, respectively, and for Established Hotels 60.2%, Ps.712 and Ps.429, respectively. During the six months ended June 30, 2014, we generated combined business segment revenues of Ps.777.1 million, a 29.0% increase, and consolidated revenues of Ps.649.4 million, a 27.5% increase, in each case as compared to the corresponding period in 2013. Our Adjusted EBITDA in the first six months of 2014 was Ps.210.9 million, a 34.7% increase from the corresponding 2013 six month period.

Our Competitive Strengths

Uniquely Structured as an Integrated Hospitality Business Platform that Develops, Owns, Manages and Franchises Limited-Service Hotels

Our business model involves fully integrating hotel development, ownership, management, marketing, franchising and distribution, which gives us control and flexibility with respect to our growth profile and our management and commercial strategy. As a result of this flexibility, we have been able to grow our number of hotels and rooms by 64.0% and 67.6%, respectively, from December 31, 2010 to December 31, 2013, compared to the Mexican lodging industry hotel and room growth rates of 7.8% and 5.3%, respectively, reported by Mexico's Ministry of Tourism for the same period.

During the year ended December 31, 2013, we derived on a per business segment basis 79.6% of our revenues from our hotel operation business segment and 20.4% from the management and distribution of hotels. As both the owner and operator, we can effectively implement best business practices and manage hotel profitability, quality, room distribution and critical aspects of our marketing programs, reservations and training of employees. Full integration allows us to diversify our sources of revenue among the operation of owned, co-owned and leased hotels, income generated from development activities, fees earned through our management and sales platform and fees from hotels owned by third-parties. As a fully integrated hospitality company, we have the flexibility to deploy our own resources on projects that maximize our ROIC, while pursuing other growth opportunities through co-investment with third-parties and management contracts. As of June 30, 2014, we owned 31 hotels (3,743 rooms), co-owned 24 hotels (2,821 rooms), leased 11 hotels (1,129 rooms), managed 16 hotels (1,692 rooms) and franchised 4 hotels (393 rooms).

Highly Profitable and Scalable Business Model Supported by an Efficient Operating Structure and Proven Development Expertise

Over the past twelve years, our cost-efficient and flexible operating structure and our systematic, disciplined and streamlined development platform has enabled us to open an average of one hotel every 6.8 weeks and achieve an average ROIC above 12.0% for our owned and co-owned Established Hotels in 2013. Our hotels are mostly new developments, which we believe cost less than acquiring, re-modeling or re-positioning outdated properties and support the long-term value of our investments. Our average development cost per room for hotels developed under the *City express* brand, excluding those developed in Mexico City, Costa Rica and Colombia, was approximately Ps.598,000 from 2011 to 2013.

We consistently seek to improve the efficiency of our operations. On average, our properties are operated with 21 employees per 100 installed rooms. We have a centralized monitoring ADR control system for all our hotel operations, enabling us to respond in real-time to the market and adjust our rates, distribution channels and marketing accordingly.

We maintain a central repository of room inventory, which ensures that we can accurately and quickly manage reservations via a variety of proprietary and third-party channels. We also seek to enhance our operational efficiency through environmentally-friendly initiatives. As a result, our six EDGE-certified hotels have experienced, on average, an estimated 30.0% and 40.0% reduction in energy and water use, respectively, compared to similarly positioned properties as of the time of the certification.

Our hotels are constructed by third-party contractors, whom we select through competitive and transparent bidding processes based on projected cost, experience, track record and technical qualifications, under the supervision and on-site project management of our own development team, which has significant expertise having developed over 19,000 hotel rooms in the aggregate throughout their careers. This experience helps differentiate us from our local competition. During the construction of our hotels, contractors follow highly detailed and standardized designs, which enhance our ability to meet budget and timing expectations. On average, the process from ground-breaking to opening for one of our hotels lasts between six and twelve months. Standardized room size, layout and FF&E further contribute to our efficiency and quality control. These streamlined and systematic development processes, combined with the quantity and continuous flow of our construction projects, allow us to benefit from economies of scale and preferential contracting and pricing for inputs.

As one of the largest hotel operators in Mexico, we have considerable scale relative to our competitors, particularly when compared to independent hotel owners/managers, and we are therefore able to achieve more operating synergies. Our size and operating scale allows us to operate our hotel chain with a standardized management platform and set of business guidelines, work with large corporate clients that require safe and high-quality accommodation for their personnel across different locations, negotiate better terms with suppliers in the hospitality industry and benefit from marketing strategies and programs that allow us to reach a larger guest base. As a result, we have achieved historical compounded annual Adjusted EBITDA growth of 27.1% from 2010 to 2013. We believe that our professional track record, reputation and position within the hospitality industry in Mexico has provided us with a broad network of strong relationships with third parties who possess development and financing expertise across Mexico, enhancing our growth opportunities and our access to land sites across the country.

National Presence and Diversified Revenue Stream Through our Three Well-Defined Hotel Brands Located Throughout Mexico

As of June 30, 2014, we had a presence in 28 of Mexico's 32 states, which, according to INEGI, together cover over 93% of Mexico's population and over 96% of its GDP. We have focused on providing high-quality services in areas close to major business and commercial centers to meet the needs of primarily mid-level business travelers and value-conscious travelers in general.

Our hotels are situated in the main areas of business-related demand, including:

- the NAFTA industrial, manufacturing, commercial and export corridor, which has benefited from the increase in manufacturing activity due to the global economic recovery, increasingly competitive energy and labor costs and recent investments by the automotive and aeronautical industries;
- the agricultural export corridor, which has been aided by renewed government spending in transportation infrastructure and the sector generally;
- the U.S.-Mexico border, which has benefited from the economic recovery in the United States, Mexico's principal trade partner;
- the mining corridor, which is expected to benefit from the Mexican government's recently announced structural reforms of the mining sector; and
- the petrochemical, industrial, logistics, energy-related and export corridor, which is expected to benefit from the recently-enacted energy reforms intended to encourage private-sector participation in the petrochemical and oil and natural gas industries.

Our dedicated location-scouting and market research teams undertake several levels of analysis to select prime sites with maximum revenue potential within these areas. By the end of 2014, we expect to be present in 29 states.

As Mexico's travel industry continues to evolve, we expect segment-specific demand within the economy and budget hotel segments to increase, driven by consumers looking for accommodations with international quality and safety standards tailored to their needs and price range. In anticipation of this increase in consumer selectivity, we have established a portfolio of three well-defined hotel brands, with a range of ADRs from Ps.500 to Ps.1,700, which positions us to offer affordable accommodations to the substantial majority of the Mexican population.

- Our flagship brand, *City express*, caters to professionals, mid-level managers, owners of small- and medium-sized enterprises and other business travelers in the economy segment, and generally offers ADRs between Ps.600 and Ps.1,200.

- Our extended-stay brand, *City Suites*, offers fully equipped apartment-like rooms to business travelers for higher ADRs of Ps.750 to Ps.1,700 while still offering accommodation within the economy segment.

- *City junior* targets non-managerial employees and other travelers in the budget segment, and generally offers ADRs between Ps.500 and Ps.750.

We believe our distinct product offerings have not only enabled us to increase our exposure to key high-growth lodging segments with different demand dynamics and to diversify our revenue mix and exposure across different economic segments, but also increase our resiliency to possible economic downturns. In addition, we believe that our commercial and marketing expertise has allowed us to establish a portfolio of recognized hotel brands tailored to our customers' needs. We continuously conduct in-house market research to assess the effectiveness of our brand architecture and to adapt it as necessary to respond to changes in the hospitality segments in which we operate.

Experienced Management Team with Extensive Track Record Developing and Operating Hotels

The majority of our senior management team has been with us since the Company was founded; together, they have overseen our growth since 2002 and have delivered a compounded annual growth rate in number of hotels of 31.1% since 2003, our first full year of operation. Our senior management team has been responsible for the structuring, financing, development and operation of our 86 hotels in operation as of June 30, 2014, with a collective 9,778 rooms, which represent more hotel and room openings since 2003 than any other hotel chain in Mexico. Our top six executives have over 100 years of combined experience in the hospitality industry, including tenure at other leading hospitality groups. Our co-founder and CEO, Luis Eduardo Barrios Sánchez, has extensive industry experience across Latin America, and, through his prior senior management roles within the industry, has led expansions into Brazil, Chile and Argentina and acquisition and capital markets transactions. We have a highly professional and experienced management team across all key functional areas of the hospitality business, including lodging-specific real estate structuring, investing and financing, hotel project management and development, hospitality operations and marketing.

Recognized National Brand Associated with Superior Value

We currently operate more limited-service hotels in the economy and budget segments in Mexico than any other international or domestic hotel chain and believe we are widely recognized as offering quality, safe and comfortable accommodation while maintaining affordable prices. Through our three well-defined brands, we believe that we have created a reliable product that caters to the largest combined segments of business travelers across Mexico. We believe our strong price-value proposition has helped us achieve greater market penetration than the brands we compete with in Mexico.

Through targeted marketing and public relations campaigns, effective use of social media and other digital platforms and commercial partnerships with leading airlines, rental car companies and other businesses, we have become a widely recognized brand associated with superior value and consistent service for travelers within the economy and budget segments. Our hotels rank highly in national brand recognition surveys, and our *Hoteles City express* brand has been accorded the status of a "well-known brand" in Mexico by the *Instituto Mexicano de la Propiedad Industrial* ("IMPI"), the Mexican intellectual property authority. Additionally, with our *City express* brand,

we have more hotels under one brand in Mexico than any other hotel chain. As of June 30, 2014, we had over 7,500 corporate accounts and locally managed agreements. Room rentals associated with corporate accounts and local agreements represented approximately 60% of our room nights occupied in the first six months of 2014. We also have several corporate alliances, primarily with airlines such as Aeroméxico, Interjet, Volaris and Avianca-Taca, whose customers can book room nights at our hotels simultaneously with the purchase of an airline ticket. We intend to continue to pursue these targeted marketing programs to increase our visibility among key populations.

Our fast-growing *City premios* guest loyalty program has over 370,000 subscribers. Points earned through *City premios* can be earned and used for goods and services across a wide variety of retail stores such as Walmart, airlines such as Aeroméxico, restaurants, entertainment venues and rental car agencies. During the first six months of 2014, reservations at our hotels made by *City premios* members totaled approximately 20% of all reservations. We believe that the strength of our loyalty program, in addition to the nearly 87% of our reservations that were made through our proprietary reservation systems or through other direct channels or relationships with our hotels in 2013, demonstrates a strong consumer identification with our brand.

Differentiated Product Compared to the Majority of Existing Inventory in our Target Markets

We believe that we are uniquely positioned as the only limited-service hotel chain in Mexico focused primarily on the value-conscious traveler, which has historically been served by a highly fragmented hotel industry comprised of smaller, independent, non-branded hotels lacking standardization and uniform safety and quality standards. These independent hotels comprise approximately 79% of the hotels available in Mexico as of 2013, according to Euromonitor.

We believe that we offer a lodging experience that is significantly distinct from national and international hotel chains in our target segments and independently owned hotels across Mexico. Within our target segments, accommodations largely consist of outdated inventory inconsistently available from independent, non-branded hotels. In contrast to much of the existing inventory, our hotels are largely new constructions with an average age of only 4.8 years.

As opposed to most independent, non-chained hotels, we offer rooms with attributes and features in line with international hospitality standards at lower prices than most chain hotels in Mexico. We offer a range of amenities that are essential for the business traveler, including wireless internet, complimentary breakfast, meeting rooms and business centers, along with fitness centers in our *City express* and *City Suites* hotels, which are not common to most independent limited-service hotels in Mexico. Our hotels are carefully designed to merge efficient functionality with modern and clean aesthetics, which we believe further differentiates our hotels from the substantial majority of inventory in our target markets.

In contrast to many of the existing hotels in our segments, we have made state-of-the-art technology a primary focus of our operations and guest experience. Our IT infrastructure connects all our hotels to our centralized monitoring and reservations platforms, so that we can optimize hotel performance, manage chain-wide room inventory allocation and ensure our guests can make reliable reservations throughout our hotel network. We also focus on technologically advanced customer interaction with our brand, by, for example, creating proprietary mobile device and web-based applications so that our guests can access our reservation services remotely. Our proprietary mobile device application has been well received by guests and early adopters of such technology in Mexico, and approximately 13% of our reservations in 2013 were made via our proprietary website or mobile device applications.

In addition to providing consistent quality and accessibility across our hotel network, we build all of our hotels to be compliant with national and international fire, safety and environmental standards. Our hotels are also specifically designed to meet environmental efficiency standards. We have obtained LEED certifications for six of our properties, and we are in the process of obtaining certification for an additional seven properties; we have also obtained EDGE certifications for six of our properties. We are also in the process of having our hotels certified by the Biosphere Responsible Tourism program, a joint certification program of UNESCO and the Institute for Responsible Tourism. As of the date of this offering memorandum, 27 of our hotels have been certified, and we expect to have all of our hotels certified by the end of 2015.

Our Shareholder Base and Corporate Governance Standards Distinguish Us From Other Participants in our Target Markets

We benefit from the support and involvement of a large institutional shareholder base, which includes investors such as Morgan Stanley Real Estate Special Situations Fund III (MSSSFIII) and the IFC (a member of the World Bank Group). Since our inception, our manner of conducting business, due to our corporate ethos and in part due to our contractual obligations to our international shareholder base, demonstrates our commitment to increased diligence and accountability regarding our business practices in general and also with respect to environmental, social impact, safety and corporate governance standards.

Following our initial public offering, we have remained committed to maintaining high corporate governance standards, as demonstrated by the composition of our Board of Directors, in which eight out of nine members are independent under Mexican Law. Our shareholder base is expected to be further diversified after this offering of our shares, which will result in no person holding more than 10% of our shares.

Our High Impact Sustainability and Social Responsibility Policy Helps Us Create Value in the Long Term

Since opening our first hotel, we have endeavored to apply environmental sustainability and social responsibility principles in all aspects of our business, from designing and constructing our hotels to developing and operating them over time. Our commitment to international environmental standards is evidenced by the numerous LEED, EDGE and UNESCO Biosphere Responsible Tourism certifications that our hotels have received. We also support educational and entrepreneurship initiatives in collaboration with leading organizations and academic institutions focused on social responsibility activities and educational programs, which we believe contribute to the social and economic well-being of our stakeholders and the communities in which our hotels are located.

Our Business Strategy

Increase Market Leadership in our Segments Through the Continued Expansion of our Hotel Network in Mexico

Our primary business growth strategy is to continue leveraging our integrated business platform and to focus on ownership of new-construction hotels throughout Mexico. We also plan on engaging in strategic and opportunistic acquisitions of existing properties in markets where there is generally a scarcity of sites available for development of new-construction hotels. We expect to expand into new geographic territories to both reach a larger percentage of the Mexican population and increase our penetration within the industrial and commercial hubs in Mexico. In addition, we anticipate augmenting brand coverage in areas in which at least one but not all of our brands are already present, particularly in cities that we believe have significant market demand for such additional coverage. We expect our land investments to date and projects under contract will support our development pipeline for up to 24 months. The diversity of our land investments means that we can choose to develop properties tactically to maximize our return on investment in doing so. Additionally, a substantial portion of this pipeline has already been funded by our existing equity and internal cash flow or other financing sources; thus, we intend to use proceeds from this global offering to accelerate our existing growth profile and take advantage of opportunities in Mexico and specific markets in Latin America. We intend to capitalize on our existing operational platform to grow our development capabilities up to approximately 20 new hotels per 12-month cycle in the coming years, in addition to strategic hotel acquisitions. We also plan to continue rolling renovations of our existing properties to ensure that our guests can continue to rely on our hotels for superior quality in our target segments. Consistent with past practice, we expect to continue our primary strategy of developing new units to replace obsolete room inventory, belonging mainly to independent, non-chain hotels, throughout our target markets. We plan on capitalizing on our existing business platform and brand recognition to further expand our hotel network and solidify our presence across Mexico.

Our business strategy remains focused on growing and strengthening our brands, hotel distribution capabilities and commercial platform through continued investments in IT infrastructure and business development. We plan to allocate capital generated from our existing operations towards marketing and sales efforts intended to strengthen our position in the hospitality segments in which we operate. We also plan to allocate capital to enhance our IT infrastructure in order to expand our room distribution capabilities and digital sales efforts, and to continue to develop the systems we use to monitor and manage our hotels in an effort to make our operations more efficient and productive.

Capitalize on Macroeconomic Opportunities in Mexico and Attractive Target Market Dynamics

We believe that our integrated hospitality platform, our efficient operating model and our focus on the economy and budget limited-service segments position us well to benefit from the structural drivers of the Mexican economy and the ongoing growth of Mexico's middle-class population. According to INEGI, Mexico is the second-largest economy in Latin America and is expected to grow at an accelerated rate in the upcoming years. The Mexican economy experienced significant growth during 2011 and 2012, with real GDP growth of 4.0% in each year. Mexico's GDP growth rate decreased to a modest 1.1% in 2013 and 1.8% during the first three months of 2014. However, the Banco de México estimates that GDP growth will rebound to an annualized rate between 2.0% and 2.8% during the second half of 2014. The Mexican manufacturing sector, in particular, has become highly competitive globally, attracting significant investment from domestic and multinational companies. Mexico's energy and petrochemical sector has also seen an important increase in investment and infrastructure development, and its prospects for the future are expected to be positive following the recent enactment of structural reforms. Prudent macroeconomic policies, which include inflation levels and stable interest rates below 5.0%, each over the past three years, and a relatively moderate debt-to-GDP ratio of 43.5% in 2013, have positively impacted Mexico's increasing stability and growth potential. In addition, positive trends in Mexican demographics include increased per capita income, access to credit and expanded domestic consumption, together with a sustainable birth rate, which translate into a sustainable demand for goods in the future. According to the Mexican National Population Council (*Consejo Nacional de Población*, or "CONAPO"), over 50% of the Mexican population is under the age of 26. As this population group ages and transitions into seeking jobs, buying homes and obtaining economic independence, further increases in domestic consumption are expected.

We believe that an increase in economic activity in Mexico, and an anticipated increase in GDP, will benefit us by increasing domestic travel and, consequently, demand for hospitality services in our target segments. Domestic travelers account for approximately 90% of all tourism spending in Mexico, according to information from Mexico's Ministry of Tourism. Our ability to operate successfully in a modest growth environment, as was the case in 2013 and the first half of 2014, leads us to believe that we are well positioned to benefit from the anticipated growth of the Mexican economy.

We also believe our target customers have been underserved by hotel chains, as chain hotels represent only approximately 21.0% of the total existing hotels in Mexico, compared to approximately 69.0% of the room inventory in the United States, according to studies published by Euromonitor and PricewaterhouseCoopers. Of the chains operating in Mexico, only three chains, of which only one is an international chain, currently have 45 or more hotels. By contrast, we expect to expand our 86 hotels as of June 30, 2014 to 100 by the end of 2014 and have established a reputation for modern facilities and consistent value and quality across Mexico. Our scale, combined with the fragmented existing hotel network, offers significant market share and organic growth opportunities for operators like us with a highly recognized product, superior brands and nationwide coverage.

As per capita income and Mexican GDP continue to grow, we believe value-conscious travelers will be increasingly selective in their lodging choices, a trend that we believe we can capitalize on through our price-value proposition, our three distinct, well-defined and recognized brands and our distribution network. Additionally, we believe we can benefit from an increase in ADRs driven by rising industry-wide occupancy rates and increasing consumer purchasing power.

Our integrated business platform and flexible operating model enabled us to adapt our development plans to the global economic crisis of 2009 and to the modest growth experienced in 2013 by, for example, promptly adjusting the rate of new-hotel developments to preserve our balance sheet, increasing the use of our IT platform to enhance productivity across the business and revising our marketing and commercial initiatives to sustain or grow RevPAR. While industry-wide investment in new rooms has not fully recovered since the economic crisis, we believe we invested more than any other hotel chain in Mexico in new-room growth over the past five years. Due to our operating efficiencies, we were able to maintain consistent RevPARs for Established Hotels over the same period. We therefore believe we are well-positioned to increase our market leadership as Mexican lodging demand and GDP continue to recover.

Target Organic Growth and Improved Profitability by Building on our Strong Business Platform

Our business platform offers guests limited-service accommodations with consistent standards of quality, safety and comfort across Mexico at affordable prices. By continuing to focus on this business model, we expect to consistently grow our revenue and Adjusted EBITDA organically through new-construction hotel openings and higher ADRs and occupancy as our new properties continue their ramp-up cycle and become Established Hotels. As of June 30, 2014, 37.2% of our hotels and 38.1% of our rooms had not yet become Established Hotels and were still in their initial ramp-up cycle. In order to implement our growth strategies, we intend to use a significant portion of our free cash flow and balance sheet capacity to invest in greenfield hotel projects and strategic hotel property acquisitions. We also intend to increase cost-efficiencies at our Established Hotels, by causing such properties to become more productive. As we grow, we expect to benefit from additional economies of scale to optimize costs for supplies, hotel development and operations. Our significant investment in technology is expected to further streamline our centralized systems, increase our operating efficiency and improve our marketing efforts and guest satisfaction. We also seek to improve our profitability by focusing our capital investments on properties with the greatest potential to deliver high returns.

Given the opportunities in the market, we expect to grow our business of managing third-party owned hotels. This type of growth allows us to increase the number of hotels we manage without making significant capital investments and provides exposure to urban areas in which there are limited opportunities to acquire land or hotels. In addition, we will continue to reinvest a significant portion of our management and franchise services fees in our brands in order to improve our market position in Mexico and penetrate specific markets in Latin America.

Expand our Hotel Network in Latin America Through Select Strategic Opportunities

While our main focus will continue to be expansion within Mexico, we expect to continue our international growth plans in countries in which our business model can be most effectively deployed. We view expansion into certain Latin American markets as an extension of our current business strategies and expect to benefit from a penetration of chain hotels in Latin America that is even lower than in Mexico. As of June 30, 2014, we have a *City express* hotel operating in San José, Costa Rica and one in Cali, Colombia, both of which are fully owned. We expect to carry out this selective regional expansion through co-ownership arrangements with local business partners. As of June 30, 2014, we had already entered into a co-ownership agreement in respect of new hotel developments in Chile and Peru, and have acquired parcels of land to support these projects. We may also consider entering into franchise and management agreements in these markets in the future.

We believe our continued expansion in strategically positioned markets outside of Mexico will allow us to benefit from integration initiatives taking place throughout Latin America, such as the recently established Pacific Alliance. These initiatives are expected to foster economic growth and integration, which may in turn lead to an increase in regional business and leisure travel. We believe that our increased activity in competitive manufacturing and business markets in Latin America will benefit from these developments.

Recent Developments

In May 2014, we acquired the non-controlling interest of Desarrolladora Hotelera del Bajío, S.A. de C.V., in the Silao *City express* hotel located in Bajío, a center of the Mexican automotive industry. This hotel, which was previously co-owned, was opened in December 2008 and contains 121 rooms.

On August 12, 2014, we opened the 115-room Monterrey Norte *City express*, our 87th hotel, which is operated under a management contract. This hotel, located in Monterrey, Nuevo Leon, is the third Hoteles City property in Monterrey, one of the leading business and industrial hubs in the country.

On September 18, 2014, we opened the 124-room Central de Abastos *City express* in Mexico City, our 88th hotel, which is operated under a lease contract. This hotel is located in one of the most important commercial and business hubs of Mexico City.

On September 22, 2014, we launched a process that is intended to enhance certain aspects of our brand architecture, as part of our continuous effort to strengthen and improve our competitive market position in the segments in which we operate. This strategy is intended to position our *City express* brand at the core of our brand portfolio, thereby leveraging its national brand recognition.

On September 23, 2014, we agreed to acquire the 45-suite Querétaro *City Suites*, located in the industrial corridor of Jurica, Querétaro. We plan to be develop 53 new suites in this property, thereby expanding the total room inventory to 97 suites. This hotel, which opened in December 2005, was initially developed as a managed hotel.

We are in the process of preparing our operating and financial results for the three and nine months ended September 30, 2014, which we expect to report to the CNBV and the BMV on or about October 22, 2014. As of the date of this offering memorandum, we expect that our results for the periods ended September 30, 2014 should be consistent with the revenue, profitability and other operating trends we have experienced during the first six months of 2014. This is a preliminary estimate, and the results for the periods ended September 30, 2014 remain subject to further internal review and adjustment and the completion of our financial procedures. Accordingly, actual results for the three and nine months ended September 30, 2014 may differ materially from our preliminary estimates.

History

We were incorporated under the laws of Mexico in April 2002 by Luis Eduardo Barrios Sánchez (our current chairman and CEO) and Francisco Javier Arce Gándara (our current Chief Development Officer). Our first hotel opened in the city of Saltillo in northern Mexico in May 2003, and we opened 4 other hotels in the same year, all under the *City express* brand. We launched our *City Suites* brand the following year. From 2004 to 2007, we continued to expand rapidly by opening five new hotels every year, for a total of 26 hotels by 2007, under both the *City express* and *City Suites* brands. In 2008, we launched our third brand, *City junior*, by opening our first *City junior* hotel in Toluca. This launch was followed by five years of continued expansion, with an average of nine new hotel openings per year, across our three brands. In 2010, we entered into a co-ownership agreement with Hospiteum in order to facilitate our expansion into Costa Rica and Colombia. We have since acquired Hospiteum's stake in this co-ownership in exchange for shares of the Company, resulting in Hospiteum becoming one of our shareholders. In 2012, we opened our first hotel outside Mexico, a *City express* in San José, Costa Rica, and we opened a *City express* in Cali, Colombia in 2013. In 2011, we entered into a co-ownership agreement with Inversiones HSG, S.A. in Chile, which is expected to serve as the basis for our expansion in Chile and Peru. By June 30, 2014, we had grown to operate 86 hotels, with 14 expected openings in Mexico during 2014.

We underwent four rounds of equity funding from our initial funding raise in 2002 through 2010. In our third round in 2007, Morgan Stanley Real Estate Special Situations Fund III (MSSSFIII), through subsidiaries, acquired a non-controlling stake in us, and, during our fourth round in 2010, the IFC (a member of the World Bank Group), IFC-ALAC Belgium Holding Company N.V. (an affiliate of the IFC), WAMEX Participaciones, S.A.P.I. de C.V. and other private investors became part of our shareholder base.

In June 2013, we successfully completed our initial public offering, which involved the primary offering of 71,154,332 shares of common stock in a global offering. We raised approximately Ps.1,733.2 million, which we used

to expand our hotel network, including the development, opening, operation and marketing of 12 hotels in Mexico and one hotel in Colombia that were opened following the initial public offering.

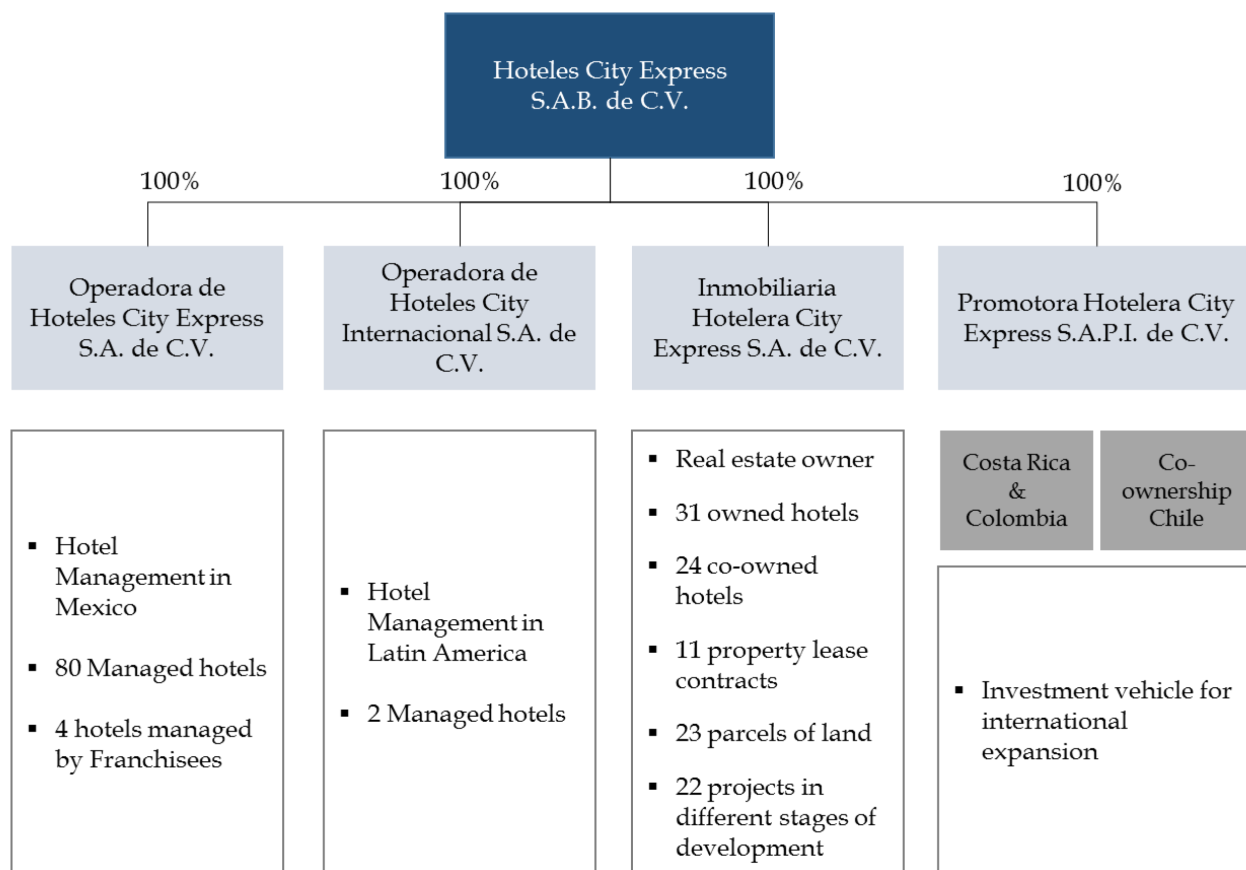
Our guest loyalty program, *City premios*, has been in existence since our first year of operation. We have also entered into key partnerships with major retail, airline and transportation companies, among others, which permit our guests to earn and use transferrable loyalty program points with airlines, rental cars and various goods and services.

We offer affordable accommodations that meet international safety and quality standards. We incorporate LEED criteria in our hotel designs, and in 2010 the San Luis *City express* was the first hotel in Latin America to obtain Silver LEED certification. In 2012, we were the first company worldwide to receive the IFC's EDGE certification, which we received for the Villahermosa *City express*. In this same year, we were the first hotel chain worldwide to participate in the Biosphere Responsible Tourism certification, developed by the Institute of Responsible Tourism, a non-profit organization that is a member of the World Trade Organization and is supported by the UN Foundation and UNEP. As of the date of this offering memorandum, 27 of our hotels have been certified by the Biosphere Responsible Tourism Program, and we expect to have all of our hotels certified by 2015.

Organizational Structure

We have established several holding subsidiaries as well as indirect subsidiaries formed to own our interests in one or several owned or co-owned hotels. We also have a wholly owned subsidiary, *Servicios Comerciales y Promoción de Hoteles, S.A. de C.V.*, which, as of June 30, 2014, employs the 336 employees who work in our central office.

The following illustration shows our principal subsidiaries as of June 30, 2014:



Operadora de Hoteles City Express, S.A. de C.V. (OHCe) and Operadora de Hoteles City Internacional, S.A. de C.V. (OHCi): As managers and franchisors of hotels, OHCe and OHCi operate through franchise and management

agreements with all HCe-branded hotels. Together, they supervise the administration and management of 82 hotels, with 4 hotels managed by franchisees.

Inmobiliaria Hotelera City Express, S.A. de C.V.: This subsidiary holds, directly or indirectly, the ownership stakes of our owned and co-owned hotels as well as our lease contracts. These include 31 owned, 24 co-owned and 11 leased hotels, as well as a variable number of land sites held for development.

Promotora Hotelera City Express, S.A.P.I. de C.V.: This subsidiary indirectly owns the interest in our properties in Colombia, Chile and Costa Rica.

Principal Business Activities

We design, develop, manage and market owned, co-owned and third-party owned limited-service hotels for the value-conscious business traveler under three brands. As of June 30, 2014, we operated 86 properties, comprising 9,778 rooms.

Owned Hotels. Historically, we have primarily focused on ownership and co-ownership of hotels. Our owned hotels are 100%-owned by us, and their results are consolidated into our financial statements. The owned hotels have been financed with a combination of company equity and, to a lesser extent, bank debt. Prior to initiating the construction of an owned hotel, a capital increase in the entire amount of the project is approved at the relevant subsidiary, and over time, as the project requires cash, the shares in respect of such capital increase are paid in full. As of June 30, 2014, we owned 31 hotels.

Co-Owned Hotels. We typically own at least a 50%-interest in hotels co-owned by us, with the remaining interest held by local business partners who frequently contribute land and/or equity towards the project development and provide insight into the local market. The co-owned hotels have been financed with a combination of company equity and, to a lesser extent, bank debt. We also capitalize co-owned hotels by capital increases as described above in "—Owned Hotels." We include our Latin American co-ownership arrangements under our co-owned *City express* hotels. The results of our co-owned hotels are consolidated into our financial statements, and the minority interest is reflected on our balance sheet. As of June 30, 2014, we co-owned 24 hotels.

Leased Hotels. We also lease hotels and the properties on which the hotels operate from third-party owners. Our lease contracts typically run for a period of fifteen years, with five-year renewal options. We are required to make fixed lease payments, which partially depend on the hotel's total cost of development and operation (including land and construction), as well as additional variable payments in certain instances, which are based on a percentage of the hotel's room revenues. The hotel revenues and operating income of our leased hotels are consolidated into our financial statements. As of June 30, 2014, we leased and operated 11 hotels.

Managed Hotels. Under our management contracts, we license our brand to the hotel property owners, with whom we enter into contracts typically of a minimum of fifteen years, with five-year renewal options. Our management contracts also contain a right of first offer in favor of our operating subsidiaries, which gives us a priority right to acquire the hotel we manage should the owner desire to sell it. We remain responsible for the administration of our managed hotel, which includes sales, marketing, reservations and establishing ADR. Furthermore, we manage these hotels according to our established commercial and operating specifications and strict quality standards. As of June 30, 2014, we managed 16 hotels.

Franchised Hotels. We franchise our brands to third-party owners of hotels under franchise agreements, with a minimum term of fifteen years, with five-year renewal options. We are not involved in the operation of the franchised hotel; however, the property owner is required to meet established commercial operating specifications and strict quality standards, including participation in all sales and marketing programs. As of June 30, 2014, we had 4 franchised hotels.

With the exception of our four franchised properties, all hotels in our portfolio are managed by our operations team, regardless of ownership.

Our hotel brands

We operate our limited-service hotels under three well-defined brands. Each brand targets a different guest profile within the budget and economy business travel segments. Within each brand, construction, internal furnishings, architecture and common areas are standardized across all our hotels.

City express. Our original and flagship brand, beginning with the opening of the Saltillo *City express* in May 2003. *City express* hotels target value-conscious business travelers by offering simple, modern and comfortable furnishings along with essential business traveler amenities, such as wireless internet, business centers, conference rooms, fitness centers and complimentary continental breakfast. *City express* hotels have ADRs ranging from Ps.600 to Ps.1,200, which places them competitively in the Mexican economy hotel segment. Each *City express* hotel typically has 100 to 150 rooms and an average room size of 248 ft^2 (23 m^2). As of June 30, 2014, we operated 69 *City express* hotels, representing 82.9% of our total rooms and 80.2% of our total hotels.

City Suites. Our extended-stay brand, launched in 2004 with the opening of the Anzures *City Suites* hotel. For a slightly higher ADR, ranging from Ps.750 to Ps.1,700, *City Suites* offers larger, apartment-like rooms, with an average room size of 323 ft^2 (30 m^2), with in-room kitchenettes, microwaves, day-use furniture and extended closet space, along with the standard business traveler amenities such as wireless internet, business centers and complimentary continental breakfast. Some *City Suites* hotels have swimming pools as well. *City Suites* hotels are developed for carefully selected markets and are designed to complement existing hotels under the *City express* and *City junior* brands. The furnishings and interiors are similar to *City express*, although the *City Suites* hotels have fewer rooms, with a range of 26 to 120 rooms per hotel. As of June 30, 2014, we operated five *City Suites* hotels, representing 5.8% of our total hotels and 3.3% of our total rooms.

City junior. Our budget business traveler brand, launched in 2008 with the opening of the Toluca *City junior* hotel. With ADRs ranging from Ps.500 to Ps.750, *City junior* hotels are priced lower than our *City express* hotels but still offer basic amenities such as wireless internet, meeting rooms and limited breakfast. Rooms are smaller, with an average room size of 183ft^2 (17m^2), with more modest interiors than the *City express* hotels. Each *City junior* hotel has 105 to 134 rooms. As of June 30, 2014, we operated 12 *City junior* hotels, or 14.0% of our total hotels and 13.8% of our total rooms.

We continuously conduct in-house market research to assess the effectiveness of our brand architecture and to adapt it as necessary to respond to changes in the hospitality segments in which we operate. We believe that this strategy helps us strengthen each of our brands, both in Mexico and abroad.

The following table sets forth our hotels and rooms by type of ownership and brand as of June 30, 2014.

Type of ownership	Hotels	Rooms
Total Owned	31	3,743
City express	28	3,418
City Suites	1	91
City junior	2	234
Total Co-owned	24	2,821
City express	20	2,411
City Suites	1	39
City junior	3	371
Total Leased	11	1,129
City express	5	574
City Suites	1	26
City junior	5	529
Total Managed	16	1,692
City express	13	1,418
City Suites	2	165
City junior	1	109
Total Franchised	4	393

City express	3	288
City Suites	0	0
City junior	1	105

The following table sets forth our hotels in operation as of June 30, 2014, by brand, location, type of ownership, opening date, and number of rooms. With the exception of the hotels with franchised ownership, we manage all of the hotels listed below.

City express Hotels

Hotel	State	Ownership	Opening Date	Rooms
Saltillo	Coahuila de Zaragoza	Owned	May 2003	120
San Luis Potosí	San Luis Potosí	Owned	July 2003	120
Monterrey Santa Catarina	Nuevo León	Owned	October 2003	105
Querétaro	Querétaro	Owned	November 2003	121
León	Guanajuato	Owned	December 2003	120
Puebla	Puebla	Owned	May 2004	124
Nuevo Laredo	Tamaulipas	Managed	August 2004	107
Ciudad Juárez	Chihuahua	50% Co-owned	October 2004	114
Irapuato	Guanajuato	Owned	November 2004	104
Reynosa	Tamaulipas	50% Co-owned	February 2005	104
Cancún	Quintana Roo	Leased	March 2005	128
Tepatitlán	Jalisco	Managed	April 2005	80
Tuxtla Gutiérrez	Chiapas	Franchised	December 2005	124
Chihuahua	Chihuahua	Franchised	March 2006	104
Guadalajara	Jalisco	Owned	July 2006	145
Tampico	Tamaulipas	50% Co-owned	November 2006	124
Mexicali	Baja California	Owned	December 2006	117
Toluca	Estado de México	Owned	December 2006	141
EBC Reforma	Mexico City (D.F.)	Owned	January 2007	70
Hermosillo	Sonora	50% Co-owned	April 2007	120
Celaya	Guanajuato	Leased	May 2007	104
Insurgentes Sur	Mexico City (D.F.)	Owned	July 2007	159
Coatzacoalcos	Veracruz de Ignacio de la Llave	50% Co-owned	August 2007	118
Tepozotlán	Estado de México	Leased	December 2007	109
Mazatlán	Sinaloa	Managed	June 2008	110
Morelia	Michoacan de Ocampo	Franchised	July 2008	60
Lázaro Cárdenas	Michoacan de Ocampo	Owned	November 2008	119
Puebla Angelópolis	Puebla	50% Co-owned	November 2008	118
Tijuana Río	Baja California	Managed	December 2008	131
Silao	Guanajuato	Owned	December 2008	121
Monterrey Aeropuerto	Nuevo Léon	Owned	December 2008	130
El Angel	Mexico City (D.F.)	Owned[(1)]	January 2009	137
Tula	Hidalgo	Managed	March 2009	103
Los Mochis	Sinaloa	Owned	June 2009	124

Hotel	State	Ownership		Opening Date	Rooms
Zacatecas	Zacatecas		Managed	June 2009	109
Veracruz	Veracruz de Ignacio de la Llave		Leased	September 2009	124
Saltillo Sur	Coahuila de Zaragoza		Managed	December 2009	107
Poza Rica	Veracruz de Ignacio de la Llave	50%	Co-owned	March 2010	118
Nogales	Sonora		Owned	November 2010	109
San Luis Universidad	San Luis Potosí	50%	Co-owned	December 2010	109
Minatitlán	Veracruz de Ignacio de la Llave	50%	Co-owned	March 2011	109
Mérida	Yucatán	50%	Co-owned	April 2011	130
Torreón	Coahuila de Zaragoza		Managed	May 2011	115
Culiacan	Sinaloa	50%	Co-owned	June 2011	133
Aguascalientes	Aguascalientes		Owned	August 2011	123
Buenavista	Mexico City (D.F.)		Managed	September 2011	103
Playa del Carmen	Quintana Roo	50%	Co-owned	September 2011	135
Puebla Autopista	Puebla	50%	Co-owned	October 2011	108
Manzanillo	Colima		Owned	November 2011	116
Ciudad del Carmen	Campeche	50%	Co-owned	December 2011	129
Ciudad Obregon	Sonora		Owned	January 2012	120
Campeche	Campeche		Owned	April 2012	110
Villahermosa	Tabasco		Owned	July 2012	127
Queretaro Jurica	Querétaro	50%	Co-owned	September 2012	135
Durango	Durango	50%	Co-owned	October 2012	120
San José	Costa Rica		Owned	November 2012	134
Xalapa	Veracruz de Ignacio de la Llave		Managed	December 2012	126
Tijuana Insurgentes	Baja California		Owned	December 2012	127
Chetumal	Quintana Roo		Leased	March 2013	109
Santa Fe	Mexico City (D.F.)	92%	Co-owned	June 2013	159
Oaxaca	Oaxaca		Managed	October 2013	103
Salina Cruz	Oaxaca		Managed	October 2013	116
Patio Universidad	Mexico City (D.F.)		Owned	December 2013	124
La Paz	Baja California Sur		Owned	December 2013	124
Cali	Colombia		Owned	December 2013	127
Cananea	Sonora	50%	Co-owned	December 2013	98
Irapuato Norte	Guanajuato	50%	Co-owned	December 2013	122
Tehuacán	Puebla		Managed	March 2014	108
Paraíso	Tabasco	50%	Co-owned	May 2014	108

City Suites Hotels

Hotel	State	Ownership		Opening Date	Rooms
Anzures	Mexico City (D.F.)		Leased	April 2004	26
Querétaro	Querétaro		Managed	December 2005	45
Toluca	México		Owned	December 2008	91
San Luis Potosí	San Luis Potosí		Managed	July 2012	120
Santa Fe	Mexico City (D.F.)	92%	Co-owned	August 2013	39

City junior Hotels

Hotel	State	Ownership		Opening Date	Rooms
Toluca	México		Leased	February 2008	106
Mexicali	Baja California		Owned	February 2009	106
Chihuahua	Chihuahua		Franchised	March 2009	105
Tijuana	Baja California	50%	Co-owned	June 2009	134
Cancún	Quintana Roo		Leased	November 2009	106
Tlaquepaque	Jalisco		Leased	February 2010	107
Ciudad Juárez	Chihuahua		Owned	March 2010	128
Veracruz	Veracruz de Ignacio de la Llave		Leased	July 2011	104
Tuxtla Gutierrez	Chiapas		Leased	October 2011	106
Puebla Autopista	Puebla	50%	Co-owned	December 2013	113
Ciudad del Carmen Isla de Tris	Campeche		Managed	February 2014	109
Ciudad del Carmen	Campeche	50%	Co-owned	February 2014	124

Hotel Development Capacity

Hotel construction and development

Our new hotels are primarily greenfield developments, with only four reconversions of existing buildings as of June 30, 2014. We are able to undertake greenfield developments due to our extensive experience in hotel development and our ability to adequately budget for costs related to new hotel construction. We believe that development of new hotels is more cost-effective than converting or remodeling the poorly constructed buildings that make up the majority of Mexico's existing hotel infrastructure. This process also enables us to maintain our standards of quality and safety and achieve our target ROIC. However, we may under certain circumstances strategically acquire existing hotels.

Our hotel development pipeline is facilitated by a variable number of land sites that we hold for development. We strategically select the land for our hotels based on the expected economics of the site, performance indicators related to the relevant sector and industry, market studies related to the particular site and our general geographic and market strategy. We believe this makes our development pipeline more secure and predictable. Our sites remain pending development for a variety of time depending on market opportunity, which can be anywhere from five to six weeks to 24 months. Some sites have been selected as appropriate for development of more than one brand. Once a land parcel is acquired, it must then pass through the permitting, and occasionally zoning, processes, which vary according to the applicable municipal, state or federal requirements. The sites that we hold are in various stages of permitting and zoning. We also own parcels in Colombia and Chile to facilitate our expansion plans in those countries. As of June 30,

2014, we had not failed to receive the applicable permitting or zoning for any of our parcels of land. See "—Regulation."

The construction of our hotels is performed by independently contracted construction companies, who are selected by us in a transparent bidding process based on projected cost, experience, track record and technical qualifications. The construction itself is closely monitored by our own experienced development team. Contractors follow highly detailed construction manuals that we have developed for each of our three brands, which include precise specifications as to construction processes, furnishings, trimmings and equipment to be installed. These specifications ensure not only consistency in the development of new hotels across our network but keeps unexpected costs and delays, at a minimum. Our timeframes average six to eleven months from groundbreaking to opening. Furthermore, our continuous stream of construction projects and the scale of our expansion allows us to benefit from economies of scale and preferential contracting and pricing terms, which contributes to our cost-efficient construction process.

Although it is not part of our central business strategy, we also selectively enter into multi-use real estate projects, for example pairing hotels with limited commercial or office space, when supported by the surrounding real estate profile. These currently represent less than approximately 10% of our hotels, with about half of the projects fully owned by us and the other half being joint projects in which we participate.

Depending on the brand, the cost of each new hotel varies due to the differing specifications related to size, design and furnishing needs. The average cost of construction per room for the *City express* brand during the period from 2011 to 2013, excluding hotels located in Mexico City, Costa Rica and Colombia, was approximately Ps.598,000. The cost includes the cost of land acquisition, hard costs, equipment, furnishing, and pre-operating expenses. We estimate that our average development cost per room will increase to approximately Ps.675,000 during the next 24 months.

Renovations and Improvements

We apply a strict set of guidelines when remodeling our existing properties, as well as when conducting general maintenance of such properties. We believe that these guidelines help us better control costs associated with upgrades and improvements. Renovations and improvements will become increasingly relevant to our operations as our portfolio of owned and co-owned Established Hotels continues to grow. Due to their location and relatively higher occupancy rates, certain properties require more frequent or significant renovations in order to maintain a level of quality consistent with our brands. Moreover, the terms of our contracts with the hotel property owners of our managed hotels help ensure that periodic renovations and improvements are conducted when we consider them necessary.

Projects Under Development

We believe that the market in Mexico allows for ample opportunities to develop new hotels in the economy and budget business traveler segments within Mexico. We estimate our current development capacity to be approximately 22 hotels a year, although the annual maximum we have built in our history was 13 hotels. We believe that we have the potential capacity to expand our annual output to approximately 22 hotels per twelve month cycle.

The following table sets forth our planned openings by brand and location for the remainder of 2014:

Hotel No.	Hotel	Brand	Ownership	Estimated Opening	Rooms	Location	Status
87	Monterrey Norte	*City express*	Managed	3Q14	115	Nuevo León	Open
88	D.F. Central de Abastos	*City express*	Leased	3Q14	124	Mexico City (D.F.)	Open
89	Puebla Autopista	*City Suites*	Co-owned	3Q14	72	Puebla	Under construction
90	Apizaco	*City express*	Managed	3Q14	104	Tlaxcala	Under construction
91	Monterrey Nuevo Sur	*City express*	Owned	4Q14	138	Nuevo León	Under construction
92	Ciudad Victoria	*City express*	Managed	4Q14	108	Tamaulipas	Under construction
93	Matamoros	*City express*	Owned	4Q14	113	Tamaulipas	Under construction
94	Cabo San Lucas	*City express*	Owned	4Q14	135	Baja California Sur	Under construction
95	Cabo San Lucas	*City Suites*	Owned	4Q14	28	Baja California Sur	Under construction
96	Toluca Cd Industrial	*City junior*	Managed	4Q14	102	Estado de México	Under construction
97	Tuxpan	*City express*	Managed	4Q14	108	Veracruz	Under construction
98	D.F. Satélite	*City express*	Managed	4Q14	89	Mexico City (D.F.)	Under construction
99	Salamanca	*City express*	Owned	4Q14	119	Guanajuato	Under construction
100	Villahermosa	*City junior*	Owned	4Q14	136	Tabasco	Under construction

Our expansion into other countries in Latin America commenced with the signing of our co-ownership agreement in 2010 with Hospiteum and the opening of our international hotels in San José, Costa Rica, in November 2012 and in Cali, Colombia, in December 2013. In June 2013, we acquired Hospiteum's stake in this co-ownership in exchange for shares of the Company, resulting in Hospiteum becoming one of our shareholders. We entered into another co-ownership agreement with Inversiones HSG, S.A. in 2011, which is expected to serve as the basis for our expansion into Chile and Peru. We have acquired a total of 8 parcels of land (specifically in Colombia and Chile) in accordance with our international development plans.

Principal Investments

We have invested in acquiring non-controlling interests in certain companies, including the following:

- In December 2012, we acquired the remaining 50% interest in Administradora de Hoteles Business Class, S.A. de C.V.
- In December 2012, we acquired the remaining 50% interest in Impulsora Plaza Villa Hermosa, S.A. de C.V.
- In January 2013, we acquired the remaining 50% interest in Impulsora Plaza Baja Norte, S.A. de C.V. for Ps.71,500,000.
- In May 2013, we entered into two "roll-up" agreements for the subscription, purchase and sale of shares in order to acquire a non-controlling interest in three of our subsidiaries, in anticipation of our initial public offering.
- In June 2013, we acquired the remaining 50% interest in our subsidiary, Riviera del Mar, S.A. de C.V., for Ps.33,971,999.

For more information on our recent investments and acquisitions, see our Financial Statements and the notes thereto included elsewhere in this offering memorandum.

Distribution and Franchising

Marketing and Reservations

Our operations are centralized and headquartered in Mexico City, where we monitor hotel performance, marketing and operating data in real-time. We also monitor the quality of our hotels and our guests' satisfaction through electronic exit surveys, guest feedback, and mystery guest programs. Because our centralized system contains our entire hotel inventory, we are able to monitor the operating, sales and marketing data and access the availability of every hotel room in our network.

From our centralized electronic platform, we can make up-to-the-minute decisions and adjustments to, for example, offer targeted sales or other promotions. As part of this platform, we operate a central reservation system (CRS) that manages room night sales, corporate agreements, third-party vendors and e-commerce. Our marketing department manages our CRS; our sales department is responsible for negotiating individual corporate agreements and sales on a local, single-hotel level.

We receive central and local reservations primarily via four channels: (i) direct customer sales, including the City express 24-hour hotline, our website, mobile applications and hotel walk-ins; (ii) third-party agents, such as travel agents, internet portals, travel consortiums and reservation booking tools (including Galileo, Amadeus and Sabre); (iii) corporate accounts, by which corporations purchase a fixed amount of room nights per year for a negotiated daily rate; and (iv) corporate alliances, for example with airlines such as Aeroméxico, Interjet and Avianca-Taca, through which customers can book airline flights and hotel rooms simultaneously.

As of June 30, 2014, we had entered into over 7,500 corporate agreements, as well as local, single-hotel arrangements, representing approximately 60.0% of our room nights occupied during the first six months of 2014. Such agreements cover a wide range of arrangements, from one night in a single hotel location to the sale of multiple room nights in numerous hotels across our network.

Loyalty Programs

Our fast-growing guest loyalty program, *City premios*, was founded in December 2003. Currently over 370,000 subscribers can earn and use points at our hotels, which are also redeemable for other goods and services at department stores, entertainment venues, rental car agencies and other businesses, including with international companies in Mexico such as Walmart, Six Flags, Sodexo and national companies such as Liverpool, Sanborns and Cinépolis, among others. Some of these sharing arrangements, such as with Aeroméxico, allow customers to earn and redeem transferrable loyalty points across both our company and our partner. Reservations via *City premios* currently represent 20.0% of our room nights sold, which we believe reflects a growing consumer awareness of and identification with our brand.

Operating Efficiency

Hotel Management

Our top management team enjoys a combined 100 years of experience in the hotel industry. Operations are led from our central office in Mexico City, where we monitor all aspects of our hotels' performance, quality and guest service.

Monitoring: Our central administration department oversees the monitoring of our hotels, collects and analyzes data from each hotel and sets operating benchmarks. Along with the corporate administration team, they consolidate our financial statements on a monthly basis and identify cost-cutting opportunities. Our accounting and audit teams also assist in monitoring finances and expenses to confirm efficient and correct operation and accounting.

Sales and Marketing: Our sales department is responsible for monitoring each hotel's performance and that of the local market. Data analyzed includes daily occupancy rates and ADRs from our hotels as well as comparable data sourced informally from competitor hotels in each market. From this information, the sales department prepares detailed monthly budgets and annual business plans for each hotel. The sales team also sets prices based on

performance data. Our sales and marketing teams work together, using a wide range of advertising methods to promote our brands to local and national audiences.

Quality Assurance: We employ several methods of quality assurance to increase the likelihood that our guests receive consistent, quality service. We have a dedicated guest service and quality control department, and our central management carries out its own biannual, unannounced site visits by which we evaluate the hotel's services, standards and image, as well as how closely on-site management is adhering to our general guidelines, policies and procedures. We also utilize a "mystery guest" program run by independent third-party consultants, who evaluate our hotels' facilities and service by staying as guests at our hotels on an anonymous basis. We offer an electronic survey to guests at checkout, in addition to reviewing and responding to concerns or comments lodged with our personnel, on our website or at other third-party lodging websites such as TripAdvisor.

Staff: Our human resources department is responsible for maintaining adequate, well-trained staffing in our hotels. This is accomplished through a variety of training methods, including group training, individual development and coaching by fellow employees. We have a comprehensive set of employee manuals that ensure standardized training across all our hotels, and we monitor each employee's training through e-learning programs.

Procurement: The scale of our hotel network enables us to efficiently manage our supplies for all our hotels. While many of our products are sourced centrally in order to take advantage of favorable prices obtained in large-scale orders, we also source products locally for our hotels, such as breakfast food, when doing so is more cost-efficient.

Systems and Technology

We believe our use of modern and sophisticated technology is critical to the success of our operations. We invest in updating our systems on a rolling basis and routinely evaluate the merits of new or different technological platforms to manage and market our hotels. Our various electronic platforms enable us to monitor hotel operations and adjust to the market in real-time, manage our various reservations channels and our entire room inventory from one central repository and respond to guest needs and inquiries made throughout our network. Combined, these technologies enable us to optimize our prices and maintain quality across all our hotels. We also have developed web-based, digital and mobile device-based applications that allow guests to conveniently book and manage reservations. Our digital reservations applications have been well received by guests and early adopters of such technology in Mexico, and approximately 13.0% of our reservations in 2013 were made via our proprietary website or mobile device applications and City Access, our internet reservation system. We intend to continue investing in platforms to help develop or operate our commercial distribution and sales systems abroad and in Mexico.

Established Hotels

We assess the performance of our hotels based in part on the year of each hotel's opening. We estimate that our hotels will generally have completed their initial ramp-up cycle three years after opening, at which time we consider them Established Hotels. Due to our rapid expansion, a large percentage of our hotels are new properties that have not completed their ramp-up cycle or achieved their projected occupancy rate and ADR. In order to compare our operating performance with other companies in the hospitality industry that are not experiencing the same rapid growth, we separately evaluate the key performance indicators of Established Hotels.

The following table shows our Established Hotels as of year-end for the years indicated, along with key operating and performance data.

Established Hotels and Key Performance Indicators

	As of and for the Six Months Ended June 30,		As of or for the Year Ended December 31,		
	2014	**2013**	**2013**	**2012**	**2011**
Established Hotels Operating Statistics:					
Number of Established Hotels at period end	54	48	50	45	35
Average Occupancy Rate	60.2%	56.5%	58.0%	59.8%	59.4%
ADR (Ps.)	712	721	714	691	682
RevPAR (Ps.)	429	407	414	413	405

Seasonality

Much of the hotel industry is inherently seasonal in nature. However, our primary focus on the business traveler and our predominantly urban or suburban geographic footprint means that most of our business is not affected by seasonality. We estimate that approximately 10% of our business relies on tourist travel. Instead, our business more closely tracks Mexican GDP and macroeconomic conditions and is less seasonal than the hotel industry in general. Nevertheless, our occupancy rates tend to decrease during the holidays from mid-December to mid-January.

Competition

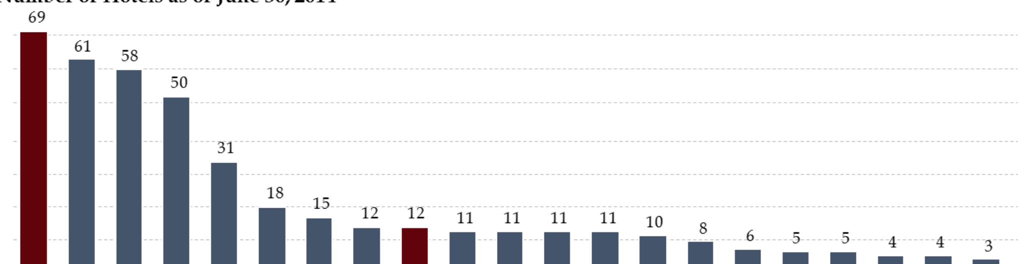
We operate in a highly competitive market. The chains with the largest presence in Mexico are Grupo Posadas and InterContinental Hotels Group, both of which have several brands that compete with our hotels (Fiesta Inn and One; and Holiday Inn and Holiday Inn Express, respectively). Among the chain hotels present in Mexico, there are several competitor brands that are tailored to reach the same value-conscious business traveler that is the focus of our lodging offerings. For our *City express* brand, competing brands include Microtel, Fairfield Inn and Sleep Inn. For our *City Suites* brand, competing brands include Holiday Inn, Courtyard, Calinda, Mision, Fiesta Inn and Garden Inn. Competing brands for our *City junior* brand include One and Ibis.

While some of our competitor brands, such as Posada's Fiesta Inn, are well-established in Mexico, others have only a minimal presence. For example, as of June 30, 2014, Garden Inn (Hilton) had four hotels in operation, Comfort Inn (Choice) had eleven hotels in operation, Ibis (Accor) had eleven hotels in operation, Real Inn (Grupo Real Turismo) had eleven hotels in operation and One (Posadas) had thirty one hotels in operation.

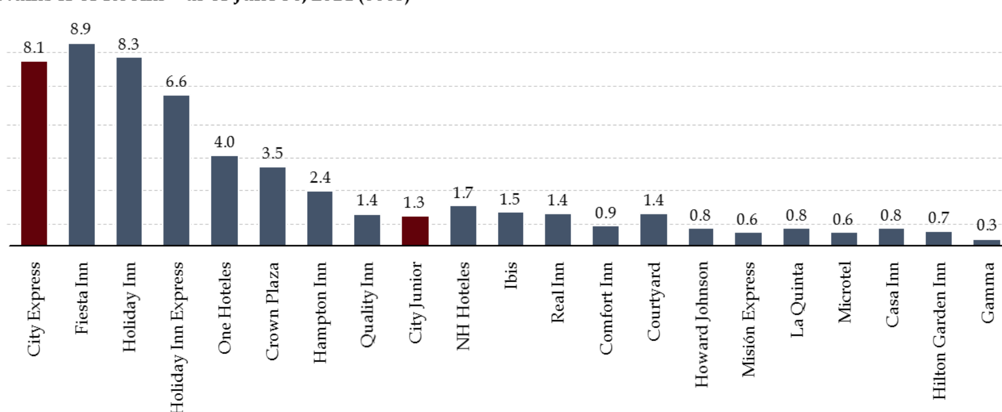
The following table shows certain of the brands that compete with us in Mexico, by number of hotels and rooms in Mexico as of June 30, 2014.

Main Select and Limited Service Hotel Chains and Brands in Mexico

Number of Hotels as of June 30, 2014



Number of Rooms[1] as of June 30, 2014 (000s)



Source: Public Information, Corporate Websites, Press Releases
(1) Estimated with historical information about property size in terms of rooms by brand

Notwithstanding that competitor hotel chains may have an interest in expanding their participation in the limited-service hotel market, the bulk of our competitor hotels within the economy and budget segment in Mexico continues to be independent, non-chain hotels. It is a primary focus of our business strategy to present our lodging offerings as market replacements for the largely obsolete and inconsistent offerings of these competitor hotels.

The hotel industry has recently experienced a trend whereby a franchised hotel adopts a brand's general standards but maintains control over its operations. This model allows the existing hotel to gain access to the brand's distribution channels, wholesalers and specialized travel agencies, and grants it the support and endorsement of a recognized brand. In addition, new technological distribution platforms that offer accommodations different from our own may in some ways cater to our target segments. See also "Risk Factors—Risks Related to our Business—Concentration in internet distribution channels may negatively impact our distribution costs."

Regulation

We are subject to a wide range of foreign and Mexican federal, state and local government laws and regulation, including those relating to building and zoning requirements, business licenses, taxation, the environment, franchising, consumer protection, real property ownership and occupational safety. We believe we are in compliance with all applicable laws and regulations and that all of our hotels have the necessary permits to operate.

Each of our hotels is granted a business license by both the state and the municipality to operate locally. In addition, we are required to register each of our hotels and the daily rates charged with the Mexican National Tourism Registry (*Registro Nacional de Turismo*). State and municipal laws in Mexico also regulate fire safety. Additionally, each of our hotels is required to have sanitation licenses, and hotel construction projects are required to have a construction license and environmental authorization, and must comply with several zoning and land-use regulations.

We believe that we are in material compliance with all applicable sanitation and construction licenses in Mexico, and with the environmental authorizations and zoning and land-use regulations applicable to our operations.

Each of our hotels is also required to obtain various licenses and permits on a periodic basis, including, but not limited to, those relating to the operation of swimming pools, fitness club facilities, parking garages, advertisement and occupational health and safety.

As a company operating in Mexico, we are subject to the recent amendments to the Mexican Federal Code of Civil Procedure and other federal environmental and consumer protection laws that implemented the availability of recourse through class action lawsuits in Mexico related to, among other matters, consumer and environmental protection. As of the date of this offering memorandum, no collective lawsuits have been filed against us in any of the contexts discussed above nor in any other contexts.

Neither us nor any of our subsidiaries is regarded as a real estate investment trust, or REIT, as set forth in the Mexican Income Tax Act, as a result of which neither we nor our subsidiaries are entitled to any special arrangements or tax benefits accorded under the Mexican Income Tax Act to such companies.

See also "Risk Factors—Risks Related to our Business—We are subject to governmental regulation."

Law on the Protection of Data

We are subject to the provisions of the Data Protection Act, which entered into force on July 6, 2010. The Data Protection Act applies to private entities, whether individuals or companies, that handle personal data; we are subject to its provisions because we handle the personal data of our hotel guests.

In accordance with the provisions of the Data Protection Act, the processing and transfer of personal data is subject to the prior consent of the owner. Such consent may obtained through a "privacy notice" by which the owner is informed of the purposes of the processing or transfer, any options to limit the use or disclosure thereof and the means to exercise his or her rights of access, redress, cancellation or opposition. If the owner does not contest the privacy notice, his or her consent is presumed. The privacy notice may be made available to such owners through printed, digital, electronic, audio or any other technological means. In accordance with the provisions of the Data Protection Act, owners of personal data may at any time revoke their consent to the processing or transfer of such data. The Data Protection Act sets out certain requirements and exceptions regarding the transfer of personal data to third parties.

Anti-Money Laundering Provisions

Under Mexico's Anti-Money Laundering Provisions, we are required to submit to the Mexican Ministry of Finance certain notices in connection with Vulnerable Activities, as defined under the relevant law. Although currently we are only required to report certain activities, we may have to report additional activities in the future. See "Risk Factors— Risks Related to our Business—We are required to comply with the Federal Law on the Prevention and Identification of Operations with Illicit Resources due to our operating activities."

In addition, the Anti-Money Laundering Provisions require us to, among other things, compile and maintain records of information from customers with whom we engage in Vulnerable Activities and to appoint a representative to the financial authorities to fulfill our obligations under these provisions.

Environmental Matters

Our operations are subject to general Mexican federal and state laws and regulations relating to the protection of the environment. We are subject to laws and regulations relating to operation and closure of storage tanks and preservation of wetlands, coastal zones or endangered species, which could affect our ability to develop, use, or sell our real property or use it as collateral. Mexican environmental law and enforcement thereof has become more stringent over time. We believe we are in material compliance with all applicable environmental laws and regulations.

Specifically, our hotels are subject to the Mexican General Law of Ecological Stabilization and Environmental Protection (*Ley General de Equilibrio Ecológico y de la Protección al Ambiente*), the rules and regulations published thereunder and the state and local equivalents. We are also subject to the National Waters Law (*Ley de Aguas*

Nacionales), the General Waste Prevention and Management Law (*Ley General para la Prevención y Gestión Integral de los Residuos*), the General Sustainable Forest Development Law (*Ley General de Desarrollo Forestal Sustentable*), the General Wildlife Law (*Ley General de Vida Silvestre*) and numerous standards known as Official Mexican Standards (*Normas Oficiales Mexicanas*), which complement the environmental regulations.

We also voluntarily seek to comply with a number of international standards for safety, quality and environmental responsibility. Hoteles City Express incorporates LEED criteria in its hotel designs; the San Luis *City express* was the first hotel in Latin America to obtain Silver LEED certification. Six hotels currently have LEED certification, and eight additional hotels are in the process of obtaining certification. We also participated in the IFC's EDGE pilot program for green buildings. Additionally, 27 of our hotels have been certified by the Biosphere Responsible Tourism program, a joint certification program of UNESCO and the Institute for Responsible Tourism, and we expect to have all of our hotels certified by the Biosphere Responsible Tourism program by the end of 2015.

Insurance

We believe that our hotels are covered by adequate property and liability insurance policies that we believe contain coverage similar to the policies carried by other hotel chains in Mexico. For our owned and co-owned hotels, we maintain coverage for general liability, property, business interruption and other risks.

For our leased and managed hotels, the governing agreements typically require the property owner to obtain insurance policies that are valid from the opening of the hotel and maintained throughout the term of the agreement and cover (i) the hotel, its buildings, operation supplies and equipment against fire, flooding and other natural risks, for 100% of the replacement cost; (ii) consequential losses incurred by business interruption caused by fire, flooding and other natural risks, equivalent to 12 months of gross operating income plus fixed operating expenses and salaries; and (iii) damages derived from hotel civil liability. Our franchise agreements typically require the franchisor to obtain insurance policies with similar coverage. Such insurance policies must be obtained from a recognized insurance company in Mexico.

In addition, we require our independent contractors to carry construction insurance and insurance for liability for damages to third parties, which must be valid for the entire construction period.

Third-Party Agreements

In 2011, we entered into a co-ownership agreement with Inversiones HSG, S.A. ("IHSG"), which is part of CorpGroup in Chile. This was expected to serve as the basis for our expansion into Chile and, subsequently, Peru. During the term of the co-ownership, we and IHSG have agreed to direct our investments in a coordinated manner.

We expect to consider strategically entering into similar co-ownership agreements with similar terms in order to continue our planned expansion into other parts of Latin America.

With respect to each co-owned hotel, we, through our subsidiaries, agree to certain transfer restrictions including preemptive rights, rights of first refusal and the tag-along rights with our local investment partners.

We have also entered into an agreement with the IFC, pursuant to which we have agreed (so long as the IFC is a shareholder) to (i) comply with certain guidelines established by the IFC in respect of anti-corruption, environmental and health and safety matters and (ii) provide certain information to the IFC, as permitted by applicable law, in connection with our compliance with such covenants.

Intellectual Property

We regard the protection of our three brands and their associated name recognition as integral to our success. As of the close of 2012, we had secured the intellectual property rights of our three brands in Mexico and in Central America and most countries in South America. This includes registering our brands with the respective intellectual property authorities as mixed (or logo-based) and nominative trademarks. We have sought similar protection of mixed and nominative trademarks for our *City premios* program in Mexico.

Our *Hoteles City express* brand has also received a designation as a "well-known brand" in Mexico, which is awarded by the same intellectual property authorities based on independent studies of market brand recognition.

We also have licenses to operate the third-party software used in our central reservation system and operations platforms.

Employees

As of June 30, 2014, we had a total of 2,345 employees, 2,009 of which were directly involved with hotel operations and 336 of which worked in our central office. Approximately 45.0% of our personnel at the hotels are unionized, and we have never had any material labor disputes or issues during our history. We believe that we maintain a good relationship with our employees and the unions to which they belong.

Legal Proceedings

Except as otherwise described herein, we are not, and our subsidiaries are not, presently involved in any material litigation nor, to our knowledge, is any material litigation threatened against us, our properties or our subsidiaries, the resolution of which could result in a material adverse effect on our operations. We, our subsidiaries and our directors, management and employees may from time to time be involved in routine litigation arising in the ordinary course of business. See "Risk Factors—Risks Related to our Business—We are subject to risks related to litigation filed by or against us" as well as "Risk Factors—Risks Related to our Business—Changes in the Mexican federal income tax laws may have an adverse effect on our financial condition and results of operations."

Corporate Information

We are a *sociedad anónima bursátil de capital variable* (variable capital public stock corporation) incorporated under the laws of Mexico. Our principal office is located at Juan Salvador Agraz 69, Piso 12, Col. Santa Fe, Delegación Cuajimalpa, 05348, México, D.F. Our telephone number at this office is +(55) 5249-8050.

MANAGEMENT AND CORPORATE GOVERNANCE

We are subject to certain corporate governance and management rules established in our bylaws and the LMV, as discussed below. This discussion does not purport to be complete and is qualified by reference to our bylaws, and the applicable provisions of the LGSM and the regulations of the CNBV and the BMV.

Our Board of Directors

Our Board of Directors is responsible for the management of our business. It meets at least once every quarter, and can meet extraordinarily as necessary. Our Board of Directors currently consists of nine principal members and their respective alternate members, appointed at the ordinary shareholders' meeting held on May 22, 2013. Pursuant to the LMV, at least 25% of the members of the Board of Directors must be "independent," as such term is defined in the LMV.

Members of our Board of Directors will serve in their position for a period of two years from June 13, 2013. On the second anniversary of June 13, 2013, and at every general shareholders' meeting thereafter, the shareholders, at the general shareholders' meeting, shall remove, designate or ratify, as the case may be, one third of the members of the Board of Directors, based on the recommendations of the Nominating Committee. Subject to certain limited exceptions, members are eligible for reelection or removal if they have not been submitted for reelection or removal at the previous two general shareholders' meetings. Members of our Board of Directors not submitted for reelection during a general shareholders' meeting will be considered to have been ratified in their positions for an additional year. Directors will therefore serve in their positions until removed by the shareholders in accordance with our bylaws, unless a director submits a voluntary resignation or the entire Board of Directors is removed.

In addition, any shareholder that owns 10.0% or more of the shares in circulation may designate a member of the Board of Directors who will hold this post for a period of one year and may be reelected or removed by such shareholder in the following annual general shareholders' meeting. If the majority of shareholders decide to remove a director nominated by a shareholder who exercised this minority right without the vote of such minority shareholder, the majority of shareholders may only do so by removing the entire Board of Directors, provided that if the shareholder that nominated such director no longer holds 10.0% or more of the shares in circulation at the time of the following annual general shareholders' meeting, a majority of the remaining shareholders may vote to reelect or remove such director, without having to remove the rest of the members of the Board of Directors.

The following table sets forth our current directors and their alternates, as applicable, as appointed by our shareholders:

Name	Age	Date of Initial Appointment	Alternate	Age	Date of Initial Appointment
Luis Eduardo Barrios Sánchez (Chairman)	62	2002	Harald Feldhaus Herrmann	71	2002
Armando J. García Segovia*	62	2002	Jorge García Segovia	56	2002
John Timothy Morris*	48	2011	Jonathan Harper	34	2013
Juan Luis Elek Klein*	70	2002	Carlos Bracho González	67	2002
Ricardo Maldonado Sosa*	67	2002	Stefan Ricardo Maldonado Sent	35	2010
Eduardo Raúl Azcárraga Pérez*	44	2002	Luis Emilio Azcárraga Pérez	47	2013
Francisco Andragnes*	42	2013	Jaime Enrique Espinosa de los Monteros Cadena	63	2013
Sergio del Valle Cantú*	44	2010	José Antonio Contreras Leyva	53	2010
José Ignacio Mariscal Torroella*	67	2013	Herbert de Sola Wright	66	2013

*Independent Directors.

Luis Eduardo Barrios Sánchez. Mr. Barrios is our current Chairman of the Board of Directors. Mr. Barrios has over 25 years of hospitality industry experience and has been our Chairman of the Board and Chief Executive Officer since our inception. Prior to co-founding our company in 2002, he held several top management positions at Grupo Posadas, one of the largest hotel operators in Latin America, including Chief Executive Officer (1994-1999) and Chief Financial Officer (1986-1993). He was responsible for leading Grupo Posadas' IPO in 1992. During his tenure at Grupo Posadas, he led the company's rapid growth from a local Mexican player to the largest hotel operator in Latin America, based on the number of rooms and hotels at the time of his departure. Mr. Barrios was instrumental in Grupo Posadas' international expansion to Brazil and Argentina through the acquisition of the Caesar Park chain. Additionally, he was responsible for the development of the Fiesta Inn brand, which was the first business travel hotel chain in Mexico.

Mr. Barrios also participates in the Board of Directors of Corporación Actinver, S.A.B. de C.V., Consejo Consultivo Metropolitano de NAFINSA, Asociación Mexicana de Hoteles de la Ciudad de México, A.C. and Asociación Mexicana de Cadenas de Hoteles. Mr. Barrios holds a degree in Systems Engineering from the Universidad Iberoamericana, as well as a Master's degree in Business Administration from the University of Texas.

Armando J. García Segovia. Mr. García currently serves as a member of the boards of directors of CEMEX, S.A.B. de C.V., Grupo Cementos de Chihuahua, S.A.B. de C.V. and Innovación y Conveniencia, S.A. de C.V. (ICONN). He also chairs the board of the Escuela de Ingeniería y Tecnologías del ITESM at the Instituto Tecnológico y de Estudios Superiores de Monterrey. Mr. García is also a member of the board of directors of the University of Monterrey and of various entities associated with sustainability and conservation, including Unidos para la Conservación, A.C., Pronatura Noreste, A.C., Consejo Consultivo de Flora y Fauna del Estado de Nuevo León and Parques y Vida Silvestre de Nuevo León. He is also founder and chairman of Comenzar de Nuevo, A.C., a non-profit

organization for the prevention, diagnosis and treatment of eating disorders, and he is a founding member of Expertos en Acción, S.C., a consulting firm.

Mr. García formerly served in several top management positions at CEMEX, including as Director of all CEMEX operations, General Director of Development, Executive Vice President of Development and, most recently, Executive Vice President of Technology, Energy and Sustainability at CEMEX. He also was chairman of the boards of the Comisión de Estudios del Sector Privado para el Desarrollo Sustentable (CESPEDES), a private research center for sustainable development, Gas Industrial de Monterrey, S.A. de C.V., Aeropuerto Internacional del Norte, S.C. and Casino Monterrey, S.C. He also served as a member of the boards of the Executive Committee of COPARMEX, the World Environmental Center, Grupo Aeroportuario Centro Norte, S.A.B. de C.V., Compañía Industrial de Parras, S.A. de C.V. and Universidad Regiomontana. Mr. García holds a degree in mechanical engineering and business administration from the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and has a Master's degree in Business Administration from the University of Texas.

John Timothy Morris. Mr. Morris is currently founder and partner of Proprium Capital Partners, LLC. Prior to founding Proprium Capital Partners, Mr. Morris served as a Managing Director at Morgan Stanley and as Chief Investment Officer of Morgan Stanley's Real Estate Special Situations Funds, where he gained extensive experience in managing international real estate investments. Mr. Morris has served on the Boards of Directors of several public, as well as private, real estate companies in Europe, Latin America, Asia and the U.S., including Fadesa, American Industrial Properties, Motel 168, Grove Property Trust, Tower Realty, Atlas and WNY Properties. Mr. Morris also serves on the Board of Trustees for Greenwich Academy in Greenwich, Connecticut, among other educational and youth-related public commitments. Mr. Morris is also a member of the Dean's Advisory Council for the Kelley School of Business at Indiana University. He received a Bachelor's degree in Finance from Indiana University in 1988.

Juan Luis Elek Klein. Mr. Elek is the founder and co-chairman of Elek, Moreno Valle y Asociados (EMVA), a premier investment banking firm in Mexico founded in 1986. He served for six years as deputy president of Banamex and nine years at Citibank, N.A., including two years in New York, two years managing Citibank's Canadian operations, and two years running its Mexican operations. He is a member of the boards of various companies and participates actively in those in which EMVA acts as a principal. He has also served as chairman of the board of Compañía Industrial San Cristóbal (Scott Paper Co.) and has served on the boards of Banamex, Cementos Apasco, Mastercard International, Seguros America, Compañía Hulera Euzkadi, Química Borden, Intermex in London, Farmacias Benavides, Mex-Capital, Korn Ferry, Sulzer Hermanos and Centex Corporation in Dallas, Texas.

Mr. Elek also formerly served as president and chair of the Mexico-U.S. Bilateral Committee and the Mexican Business Council for International Affairs (C.E.M.A.I.). He has served as vice president of the National Museum of Art in Mexico (MUNAL), the Centro Mexicano de la Filantropía and The Americas Society, and he was elected to the Board of Trustees of Southern Methodist University (SMU) in 2001. He was also honored by the Brazilian Government for promoting international trade and investment. Mr. Elek earned degrees from Central Methodist College in Fayette, Missouri and Harvard Business School in Cambridge, Massachusetts.

Ricardo Maldonado Sosa. Mr. Maldonado currently serves as a member of the Regional Advisory Board of BBVA Bancomer and the Advisory Committee of the Universidad Loyola del Pacífico, and he previously was a member of the Mexican Institute of Financial Executives (IMEF). He has been involved as an investor in several hospitality ventures both in Mexico and the United States. Mr. Maldonado is a Certified Public Account and also has a degree in advanced management studies from the Universidad Autónoma de Nuevo León.

Eduardo Raúl Azcárraga Pérez. Mr. Azcárraga currently serves as CEO of Inmobiliaria y Desarrolladora Destin, S.A. de C.V. and of Fraccionadora Villa Las Fuentes, S.A. de C.V. He has served in various companies in the fields of real estate development, information technology and financing. He also has served as member of the boards and audit committees for Corporación MDS, S.A. de C.V. and Valle Alto Club de Golf A.C. Mr. Azcárraga has a degree in computer systems engineering from the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) as well as a Master's degree in business and finance from the EGADE Business School in Monterrey.

Francisco Andragnes. Mr. Andragnes currently serves as Director of the real estate area for Latin America of Compass Group, Manager of Fondo Compass de Desarrollo y Renta Residencial Mexico, a residential rental property fund that he also co-founded with Compass Group, and Director at Metro Building, a real estate development company that focuses on major Latin American metropolitan areas and New York. He previously served as Chief Investment

Officer and President of the Investment Committee for Latin America at Prudential Real Estate Investors, and he was also previously a real estate consultant for Ernst and Young in Buenos Aires. Mr. Andragnes also served as a member of the Board of Directors of Paz Corp, S.A., a homebuilder in Chile, Brazil and Peru, as well as of Ridge Trust, a private REIT with operations in the United States and Mexico. Mr. Andragnes has extensive experience in the Latin American real estate market, having participated in more than 300 real estate projects in Mexico, Brazil, Argentina, Chile, Peru, Colombia and the United States, and has independently consulted for Pulte Homes Corporation. Mr. Andragnes holds a Bachelor's degree in Management from the University of Buenos Aires, where he has also served as adjunct professor, and a Master's degree in Real Estate Development from Columbia University.

Sergio del Valle Cantú. Mr. del Valle has been a Partner at WAMEX Private Equity, a Mexican private equity company, since 2001. Mr. del Valle is responsible for several portfolio companies, operations of the funds and investor relations. Mr. del Valle serves as member of the boards of directors of Hoteles City Express, KUA Mex Foods and Productos Medix, and has served as a member of the boards of directors of several portfolio companies of the funds managed by WAMEX. Mr. del Valle previously worked in the mergers and acquisitions and corporate finance areas at Bankers Trust, which was acquired by Deutsche Bank, Grupo Televisa and OBSA Serfin. Mr. del Valle has a graduate degree from the Instituto Panamericano de Alta Dirección de Empresas (IPADE) and an engineering degree from the Universidad Panamericana.

José Ignacio Mariscal Torroella. Mr. Mariscal currently serves as Executive President of Grupo Marhnos, S.A. de C.V. and Vice President of FinComún Servicios Fincancieros Comunitarios. He is a member of the Board of Directors of Grupo Bimbo, S.A.B. de C.V.; at Grupo Bimbo, Mr. Mariscal also presides over the Planning and Finance Committee of the Board of Directors. In addition, he serves on the Boards of Directors of Grupo Aserta, S.A. de C.V. and Grupo Calidra, S.A. de C.V. Mr. Mariscal also participates in the leadership of several public organizations. He is a member of the executive commission and presides over the committee for human development of COPARMEX, the Employers' Association of Mexico, and has been president of USEM, the Employers' Social Union of Mexico, in which he now serves as a member of the council of the national USEM and of the advisory boards of both the national and Mexico City USEM organizations. Mr. Mariscal also currently serves as the Vice President of the Business and Industry Advisory Council to the OECD and as president of the Committee for a Single Economy Within the Law within the Business Coordinating Council. Further, Mr. Mariscal leads the Fundación Leon XII, a charity that serves the needy in Oaxaca. Mr. Mariscal graduated with a degree in architecture from the Universidad Autónoma de México; he also has a Master's degree in Business Administration from Columbia University and a degree from the Advanced Management Program at Harvard University.

Actions of the Board

Our Board of Directors is our legal representative and is authorized to take any action, as a collegiate body, in connection with our operations not expressly reserved to our shareholders.

The Board of Directors must approve, among other matters:

- our general strategy;

- with the prior opinion from our Audit and Corporate Practices Committees, on an individual basis: (1) transactions with related parties, subject to very limited exceptions, (2) the election of our Chief Executive Officer, his compensation and removal for just cause and policies for the description and comprehensive remuneration of other members of our senior management, (3) the guidelines on our internal control and internal audit and those of our subsidiaries; (4) our financial statements and those of our subsidiaries, and (5) contracts with external auditors;

- the calling of shareholders' meetings;

- the creation of special committees and granting them power and authority, provided that the committees will not have the authority which, by law, or under our bylaws is expressly reserved for the shareholders or our Board of Directors; and

- the exercise of our general powers in order to fulfill our corporate purpose.

Meetings of the Board of Directors will be validly convened and held if a majority of our members are present. Resolutions at the meetings will be valid if approved by a majority of the directors.

Meetings of our Board of Directors may be called by (i) 25% of our board members, (ii) the Chairman of the Board of Directors, or (iii) the Chairman of the audit committee or the corporate practices committee.

The Mexican Securities Market Law imposes a duty of care and a duty of loyalty on our directors. For further information see "The Mexican Securities Market—The Mexican Securities Market Law."

Members of the Board of Directors with a conflict of interest and, if applicable, the secretary of the Board of Directors, must abstain from participating and being present during the deliberation and voting of the matter at the relevant Board of Directors or committee meeting, without this affecting the necessary quorum for that particular meeting.

Members of the Board of Directors and the secretary of the Board of Directors will breach their duty of loyalty to us and be liable for damages to us and, if applicable, our subsidiaries, if they have a conflict of interest and they vote or make a decision with respect to us or our subsidiary's assets or if they fail to disclose any conflict of interest they may have unless confidentiality duties prevent them from disclosing such conflict.

Each of our committees may create one more sub-committee to receive support in the execution of its obligations. The forming committee has the authority to appoint or remove the members of the sub-committee and determine its authority.

Our Committees

Our Audit, Corporate Practices and Planning and Finance Committees are each comprised of at least three members. Our Nominating Committee will also be comprised of at least three members. As required by the LMV, members of our Audit and Corporate Practices Committees are independent pursuant to Article 26 of the LMV.

As set forth in our bylaws, our Audit, Corporate Practices and Planning and Finance Committees and our Nominating Committee may be merged at any time with the approval of our Board of Directors, as long as the duties of each committee are all allocated to the merged committee or sub-committees and they meet the requirements of the LMV.

In addition, we have a Procurement and Construction Committee and a Compensation Committee.

Audit Committee

The LMV requires us to have an audit committee, which must be comprised of at least three independent members appointed by the Board of Directors (except in the case of corporations controlled by a person or corporate group holding 50.0% or more of the outstanding capital stock, in which case the majority of the members must be independent).

Our Audit Committee members are Jaime Enrique Espinosa de los Monteros Cadena, Sergio del Valle Cantú and Carlos Bracho Gonzalez. We believe that all of the members of our Audit Committee are independent, as set forth in our bylaws and pursuant to LMV standards, and that each member qualifies as a financial expert. However, standards for independence and financial expertise under the LMV differ from those under the New York Stock Exchange, NASDAQ or U.S. securities law standards, which our Audit Committee members are not required to meet.

Our Audit Committee's principal duties are the following:

- make recommendations to our Board of Directors regarding the appointment and removal of our external auditors;
- supervise our external auditors and analyze their reports;
- analyze and supervise the preparation of our financial statements;

- inform the Board of Directors about our internal controls and their adequacy;
- assist our Board of Directors in the preparation of a report about the operations and activities in which our board of directors has intervened pursuant to the LMV;
- receive and analyze recommendations and observations from the shareholders, members of the Board of Directors, members of our senior management, our external auditors or any third party and take the necessary actions based on such recommendations or observations;
- call shareholders' meetings;
- oversee the execution by our chief executive officer of resolutions by the shareholders or the Board of Directors in accordance with the instructions provided by the shareholders or the Board of Directors in such resolutions; and
- provide a report of its activities to our Board of Directors.

Corporate Practices Committee

The current members of our Corporate Practices Committee are José Antonio Contreras Leyva, Eduardo Raúl Azcárraga Pérez, José Ignacio Mariscal Torroella and Francisco Andragnes. In accordance with the provisions of the LMV and our bylaws, all of the members of our Corporate Practices Committee are independent.

The Corporate Practices Committee's principal duties are the following:

- provide opinions and recommendations to our Board of Directors;
- provide assistance to our Board of Directors in the preparation of reports about the main accounting and information guidelines used in the preparation of financial information;
- provide assistance to our Board of Directors in the election of our chief executive officer compensation and comprehensive remuneration of the other members of our senior management;
- provide assistance to our Board of Directors in the preparation of reports for the annual shareholders' meeting;
- request and obtain opinions and recommendations from independent experts; and
- call shareholders' meetings.

Planning and Finance Committee

We have established a Planning and Finance Committee, which has the following principal duties:

- analyze and evaluate our long-term business plan, including financial structure and organizational resources;
- opine on fund raising efforts (equity and debt), new products and international expansion; and
- analyze and evaluate capital investments unrelated to the development of new hotels, the acquisition of existing hotels and our minority participation in existing hotels.

Nominating Committee

The Board of Directors will appoint three members to form our Nominating Committee, which will have the following functions:

- To identify and evaluate candidates for election or designation as members of our Board of Directors;
- To make recommendations to the Board of Directors regarding individuals to be appointed members of the Board of Directors; and
- To propose to the Board of Directors the compensation to be paid to the independent members of the Board of Directors as well as the members of the Board of Directors appointed by our shareholders.

Additional Committees

We have also established a Procurement and Construction Committee and a Compensation Committee. The Procurement and Construction Committee's responsibilities include:

- optimizing cost, quality and time considerations in the development of new projects;
- defining and reviewing bidding processes for fairness and lack of conflicts of interest;
- reviewing the analyses and recommendations of management prior to assigning construction and installation contracts; and
- overseeing the purchase of FF&E for our hotels.

The Compensation Committee's responsibilities include:

- defining compensation policy and performance evaluation for our senior management;
- utilizing best practices for market compensation to align the interest of our shareholders with that of our senior management;
- analyzing best practices through market data research, including through the use of specialized external consultants; and
- developing plans for senior management succession.

Our Main Executive Officers

The following table lists the names, ages, positions and years of service of our main executive officers:

Name	Age	Position	Year of Joining the Company
Luis Eduardo Barrios Sánchez	62	Chief Executive Officer	2002
Francisco Javier Arce Gándara	52	Chief Development Officer	2002
Roberto Palacios Prieto	40	Chief Financial Officer	2006
Rogelio Avendaño Martínez	51	Chief Operating Officer	2003
Blanca Aidee Herrera Colmenero	50	Chief Marketing and Franchise Services Officer	2002
Francisco José Fabregat Ramírez	48	Chief IT and Systems Officer	2002
Abelardo Loscos Nahoul	37	Corporate Finance and Investor Relations Director	2011

The following sets forth biographical information for our main executive officers.

Luis Eduardo Barrios Sánchez, Chairman of the Board of Directors and Chief Executive Officer

For Mr. Barrios' biography, see "—Our Board of Directors."

Francisco Javier Arce Gándara, Chief Development Officer

Mr. Arce has over 17 years of experience in hotel development and supervision and is responsible for the development of each of our hotels, including land sourcing, selection and acquisition, architectural planning, budgeting, contractor selection and construction supervision. Prior to co-founding Hoteles City Express, Mr. Arce was previously with Posadas, where he was Manager of Development and Land Acquisitions. During his career, Mr. Arce and his development team have been responsible for the cumulative development of over 16,000 hotel rooms across Mexico and other countries in Latin America, such as Costa Rica, Colombia and Chile. Mr. Arce has a degree in Industrial Engineering and a Master's degree in Business Administration, both from the Universidad del Valle de Mexico.

Roberto Palacios Prieto, Chief Financial Officer

Mr. Palacios has been with our company since 2006. Mr. Palacios is responsible for our finance, planning, administration, business development and legal activities. Mr. Palacios has managed the structuring, capital-raising and debt financing supporting the development of hotels during his tenure at Hoteles City. Prior to joining Hoteles City, Mr. Palacios served as Operations Director in Grupo Dupuis and previously worked for the investment banking division of Goldman, Sachs & Co. and Protego (Evercore Partners). Mr. Palacios holds a Business Administration degree from the Instituto Tecnológico Autónomo de Mexico, as well as a Master's degree in Business Administration from Stanford University Graduate School of Business.

Rogelio Avendaño Martínez, Chief Operating Officer

Mr. Avendaño has been with us since 2003 and has over 20 years of industry specific expertise in hotel management, operations and human resources. Mr. Avendaño has had direct managerial hotel responsibilities with

Posadas (in Fiesta Americana and Fiesta Inn), InterContinental Hotels Group (Crowne Plaza and Holiday Inn) and other hotel brands. Mr. Avendaño has headed our hotel operations since 2003. Mr. Avendaño holds a degree in Business Administration and has completed advanced management studies through the IPADE and ITESM/IE executive business studies programs.

Blanca Aidee Herrera Colmenero, Chief Marketing and Franchise Services Officer

Ms. Herrera joined our company in 2002 and was previously a manager in the market research and marketing team of Posadas. Ms. Herrera obtained broad experience in market research by initiating her career at Fomento Turistico Banamex. Ms. Herrera has more than 20 years of experience in the tourism industry and has led our marketing, commercial and distribution initiatives. Ms. Herrera holds a degree in Tourism from the National Polytechnic Institute and has completed advanced management studies through IPADE's executive business studies program.

Francisco José Fabregat Ramírez, Chief IT and Systems Officer

Mr. Fabregat has been with us since 2002 and previously headed the IT department at GMAC Mexico, Posadas, and Serfin (now Banco Santander). Mr. Fabregat has over 20 years of experience in technology management and IT infrastructure development. Mr. Fabregat designed our IT platform at our founding and has since grown, enhanced and implemented the product. Mr. Fabregat holds an engineering degree in Information Technology and Systems and various advanced certifications from IT hardware and service providers.

Abelardo Loscos Nahoul, Corporate Finance and Investor Relations Director

Mr. Loscos joined our company in 2011. Mr. Loscos is responsible for our corporate finance, risk management and investor relations activities, and reports to our Chief Financial Officer. Prior to joining our company, Mr. Loscos was Vice President of Global Banking at HSBC Mexico. He also previously worked in the investment banking division at Goldman, Sachs & Co., focusing on Latin America generally and Mexico in particular. Mr. Loscos holds a degree in Business Administration from the Instituto Tecnológico Autónomo de Mexico, as well as a Master's degree in Business Administration from IESE Business School.

Compensation of Directors and Executive Officers

Salaries and benefits received by our senior officers that were paid or accrued by us in 2013 and 2012 amounted to Ps.43.3 million and 37.1 million, respectively, consisting of base salary amounts, benefits and variable compensation programs.

Business Address of the Members of our Board of Directors and Main Executive Officers

The business address of the members of our company's Board of Directors and the members of our senior management is: Juan Salvador Agraz 69, Piso 12, Col. Santa Fe, Delegación Cuajimalpa, 05348, México, Distrito Federal, Mexico.

Share Subscription Agreements

Certain of our officers executed in May 2013 Share Subscription Agreements to acquire our shares. Pursuant to such Share Subscription Agreements, these officers have subscribed to an aggregate total of 6,517,092 of our shares, of which 1,558,023 have been paid in full and released to the respective subscribers and 4,959,069 are partially paid for and have been deposited in a management trust. See "Principal Shareholders." Pursuant to the terms of the Share Subscription Agreements, the obligation to pay the remaining portion of the subscription price is contingent upon our meeting certain performance metrics each year for a four year period following June 2013. Accordingly, the subscription price will be gradually paid over the course of each of the four years and will be calculated based on the performance of the Company. As of the date of this offering memorandum, the shares corresponding to the first anniversary of our initial public offering have been paid in full and released. These shares may be redeemed by us at any time for an amount equal to the subscription price that would have been paid up until the time of redemption, even if the performance metrics established in the relevant Share Subscription Agreements have not been met. As long as the shares have not been paid in full, they will be voted in the same manner as the majority of our other shares, and

once the subscriptions are paid in full, they will be released from such voting trust and can be freely voted. The relevant officers have entered into loan agreements to cover payments related to the subscription and pledged the relevant shares as security for payment. The shares are to be released from the pledge upon full payment of the amounts due under the relevant loan agreements.

External Auditors

Our independent auditors are Galaz, Yamazaki, Ruíz Urquiza, S.C., members of Deloitte Touche Tohmatsu Limited, whose offices are located in Mexico City. Our independent auditors were appointed by the Audit Committee and ratified at a general shareholders' meeting.

Our independent auditor has served as our external auditor since fiscal year 2010. In the past three years, they have not issued a qualified opinion or a negative opinion, nor have they refrained from giving an opinion on our financial statements.

Share Ownership

See "Principal Shareholders" for a description of the current ownership of our capital stock by directors and executive officers.

PRINCIPAL SHAREHOLDERS

The table below sets forth certain information regarding the ownership of our capital structure as of August 31, 2014 and after giving effect to the global offering (assuming no exercise of the overallotment options) by (i) each person that owns more than 5.0% of our capital stock and (ii) each of the directors and executive officers who owns more than 1.0% of our capital stock.

	Shares owned prior to the global offering		Shares owned after the global offering	
Name of shareholder	**Number**	**%**	**Number**	**%**
Vaarn BVBA (affiliate of Morgan Stanley)[1]	24,593,431	8.94%	24,593,431	6.56%
Jardenne Corporation, S.à.r.L. (affiliate of Morgan Stanley)[1]...............................	11,958,545	4.35%	11,958,545	3.19%
IFC (directly and indirectly)[2]	25,552,320	9.29%	25,552,320	6.81%
Affiliates of Wamex[3]............................	9,625,958	3.50%	9,625,958	2.57%
Members of the Board of Directors and Relevant Executive Officers[4].............	47,218,961	17.12%	47,218,961	12.59%
Total..	118,949,215	43.24%	118,949,215	31.72%

(1) Other affiliates of Morgan Stanley are acting as initial purchaser and Mexican underwriter for this global offering.

(2) Includes shares held by ALAC (Belgium) Holding Company, N.V. and the IFC. The IFC has granted loans to certain of our subsidiaries. See "Related Party Transactions."

(3) Includes shares held by Wamex Participaciones, S.A.P.I. de C.V., Multinational Industrial Fund II LP and CIBanco, S.A. Institución de Banca Múltiple (formerly The Bank of New York Mellon, S.A. Institución de Banca Múltiple) as trustee, who together vote their combined shares.

(4) Includes shares held directly or indirectly by Mr. Luis Eduardo Barrios Sánchez, Mr. Juan Luis Elek Klein, Mr. Eduardo Raúl Azcárraga Pérez, Mr. Luis Emilio Azcárraga Pérez, Mr. Jorge García Segovia, Mr. Armando J. García Segovia, Mr. Stefan Ricardo Maldonado Sent, Mr. Herbert de Sola Wright and shares issued pursuant to the Share Subscription Agreements. See "Management and Corporate Governance—Share Subscription Agreements." Each of these directors and executive officers holds more than 1.0% of our capital stock.

(5) Assuming no exercise of the option to purchase additional shares.

Liquidity Agreement

All of our shareholders (including our executive officers) at the time of our initial public offering entered into a liquidity agreement (the "Liquidity Agreement"), pursuant to which such shareholders have agreed, subject to certain exceptions, to certain rules and restrictions regarding the sale and disposition of the shares owned by them following the initial public offering (the "Restricted Shares"). In accordance with the Liquidity Agreement, every six months after December 10, 2013, a predetermined number of Restricted Shares was and will continue to be released and become freely transferable, such that at the end of the 540-day period following December 10, 2013 all of the Restricted Shares will have been released. As of August 30, 2014, 89,473,914 Restricted Shares remained subject to the terms of the Liquidity Agreement. An ad-hoc committee may increase the number of Restricted Shares or accelerate the foregoing calendar to release Restricted Shares in advance on the basis of, and after taking into consideration, market conditions and the trading performance of the shares. Such ad-hoc committee may also organize book-building efforts during the restricted period through which the shareholders that are bound to the Liquidity Agreement may sell their Restricted Shares as part of a block sale during the restricted period. Additionally, the shareholders will be entitled to sell their Restricted Shares: (i) in private transactions outside of the BMV, subject to the tag-along rights that may be exercised by the rest of the shareholders that are bound by the Liquidity Agreement and provided that the purchaser becomes a party to the Liquidity Agreement; (ii) to their affiliates, without being subject to such aforementioned tag-along rights, provided that the purchaser becomes a party to the Liquidity Agreement; (iii) in secondary tranches of any offerings that may be undertaken by us, with the prior consent of the shareholders; or (iv) as part of a transaction involving 100% of our shares that has been approved by our Board of Directors or during a shareholders' meeting in accordance with our bylaws, in which case shareholders bound by the Liquidity Agreement will be entitled to participate pro rata based on their ownership of Restricted Shares held at such

time. The Liquidity Agreement shall automatically terminate: (i) upon the agreement of all signatories thereto; (ii) in the event of a dissolution or liquidation of our company; (iii) upon the reaching or surpassing of certain thresholds regarding the trading price of our shares; (iv) if Luis Eduardo Barrios Sánchez ceases to serve as our CEO and Chairman of our Board of Directors; or (v) when there are no more Restricted Shares. Further, the Liquidity Agreement shall terminate with respect to any shareholder if such shareholder ceases to hold Restricted Shares. Notwithstanding the above, the right of the shareholders that are bound by the Liquidity Agreement to take part in secondary tranches of any offering organized by us shall remain in effect for a period of three years following the termination of the Liquidity Agreement. In addition, Luis Eduardo Barrios Sánchez has agreed that in certain cases of his voluntary resignation, 33.0% of his Restricted Shares will remain subject to the transfer restrictions for a period of two years following such resignation, unless a public tender offer for 100.0% of our shares takes place.

RELATED PARTY TRANSACTIONS

As of the date of this offering memorandum, we have not entered into any other transaction with any entity in which we hold more than 10.0% of the outstanding voting shares or with any of our shareholders holding more than 10.0% of our outstanding voting shares other than as disclosed below.

Currently, one of our subsidiaries has entered into a transaction with the IFC (International Finance Corporation), our shareholder, for a line of credit in an amount of approximately US$30.0 million, the terms of which, in our opinion and that of our subsidiary, are substantially in accordance with market conditions.

We have also entered into an agreement with the IFC, pursuant to which we have agreed (so long as the IFC is a shareholder) to (i) comply with certain guidelines established by the IFC in respect of anti-corruption, environmental and health and safety matters and (ii) provide certain information to the IFC, as permitted by applicable law, in connection with our compliance with such covenants.

We and our shareholders at the time of our initial public offering entered into a Liquidity Agreement with respect to shares held by such shareholders at the time of the global offering. See "Principal Shareholders—Liquidity Agreement."

DESCRIPTION OF OUR CAPITAL STOCK AND CORPORATE BYLAWS

Set forth below is a description of our capital stock and a brief summary of certain significant provisions of our bylaws and Mexican law relating to our shares and capital stock. This description does not purport to be complete and is qualified in its entirety by reference to our bylaws and Mexican law.

We were incorporated on April 16, 2002 in Mexico City, Mexico, under the corporate name ''Hoteles City Express, S.A. de C.V.'' as a variable capital corporation (*sociedad anónima de capital variable*) organized pursuant to the LGSM. On October 23, 2007, we adopted the form of a variable capital investment stock corporation (*sociedad anónima promotora de inversión de capital variable*), amended our bylaws in their entirety and changed our corporate name to Hoteles City Express, S.A.P.I. de C.V. On May 22, 2013, we held an ordinary and extraordinary shareholders' meeting during which our shareholders approved the amendment and restatement of our bylaws in their entirety to conform them to the provisions of the LMV (applicable to public corporations), to adopt the form of a listed variable capital stock corporation (*sociedad anónima bursátil de capital variable*) and to change our name to ''Hoteles City Express, S.A.B. de C.V.'' A copy of our bylaws, as amended, has been filed with, and can be examined at, the CNBV and the BMV and is available for review at www.bmv.com.mx.

The duration of our company is indefinite. We are a holding company and conduct all of our operations through our subsidiaries. Our corporate domicile is in the Federal District of Mexico City, our headquarters are located at Juan Salvador Agraz 69, Piso 12, Col. Santa Fe, Delegación Cuajimalpa, 05348, México, Distrito Federal, and our telephone number at that office is +52 55 5249 8050.

Capital Stock

Because we are a variable capital stock corporation, our capital stock must have a fixed portion and may have a variable portion. As of the date of this offering memorandum, our issued and outstanding share capital consists of 275,111,459 ordinary, nominative, no par value shares of common stock, of which 300 represent the fixed portion of our capital stock and 275,111,159 the variable portion of our capital stock. Immediately after giving effect to the global offering, assuming the initial purchasers and the Mexican underwriters do not exercise their option to purchase additional shares from us, 375,111,459 shares will be outstanding. Our shares may be issued to, paid for and held by either Mexican or non-Mexican investors.

Voting Rights and Shareholders' Meetings

All of our shares have full voting rights. Each share entitles the holder to one vote at any meeting of our shareholders.

Under our current bylaws, we may hold two types of shareholders' meetings, special or general, and general meetings may be ordinary or extraordinary. Ordinary shareholders' meetings are those called to discuss any issue not reserved for extraordinary shareholders' meetings. An annual ordinary shareholders' meeting must be held at least once a year within the first four months following the end of each fiscal year to discuss, among other things, the approval of our financial statements, the report prepared by the Board of Directors on our financial statements, the appointment of the principal and alternate members of the Board of Directors, the reports of the chairman of the Audit Committee and the chairman of the Corporate Practices Committee, the report of our CEO, and the determination of compensation for members of the Board of Directors.

Extraordinary shareholders' meetings are those called to consider any of the following matters, among other things:

- the cancellation of the registration of the shares representative of our capital stock with the RNV or with any national or foreign stock exchange in which such shares are traded;
- an extension of the our duration;
- our dissolution;
- an increase or decrease in the fixed portion of the our capital stock or in the terms of Article 53 of the LMV;

- a change in our corporate purpose or nationality;
- any transformation, merger or spin-off involving us;
- any stock redemption or issuance of preferred stock;
- redemption of our shares payable with retained earnings;
- the issuance of bonds, debentures, obligations, debt or capital instruments or any instrument;
- amendments to our bylaws; and
- any other matters for which applicable Mexican law or the bylaws specifically require an extraordinary meeting.

Shareholders' meetings are required to be held at our corporate domicile in México City, Federal District, excepting cases of unforeseen circumstances or force majeure. The Board of Directors, the Secretary or Chairman of the Board of Directors, the Corporate Practices Committee, the Audit Committee or a Mexican court of competent jurisdiction may call a shareholders' meeting. In addition, any shareholder or group of shareholders representing 10.0% of our outstanding capital stock has the right to request that the Board of Directors, the Audit Committee or Corporate Practices Committee, through their Chairman, call a shareholders' meeting to discuss the matters indicated in the relevant request.

Calls for shareholders' meetings must be published in the official gazette of our corporate domicile or in a newspaper of general circulation in México City, Federal District, at least 15 days prior to the date of the meeting. Each call must set forth the agenda for the meeting but cannot not include any general agenda items. The call must be signed by the individual that convened the meeting, in the understanding that if the meeting was called by the Board of Directors, the signature of the chairman, secretary or alternate secretary shall be sufficient. From the date on which a call is published until the date of the corresponding meeting, all relevant information will have to be available to the shareholders at the domicile of the secretary of the Company.

To be admitted to any shareholders' meeting, shareholders must present evidence that their certificates have been deposited with a financial institution, brokerage house or deposit institution at least one day prior to the shareholders' meeting. These documents will be exchanged for certificates issued by us that must be used to be admitted to the meeting. Shareholders may appoint one or more attorneys-in-fact to represent them pursuant to general or special powers of attorney or by a proxy in the form distributed by us 15 days prior to the meeting.

Quorums

Ordinary meetings are legally convened on a first call when at least one more than half of the shares representing our outstanding capital stock are present or duly represented at the meeting. Resolutions at ordinary meetings of shareholders pursuant to a first call are valid when approved by the holders of the majority of the shares present at such meeting. On second or subsequent calls, any number of shares represented at an ordinary meeting of shareholders constitutes a quorum and resolutions are valid when approved by the holders of a majority of the shares represented at the meeting.

Extraordinary shareholders' meetings and special shareholders' meetings are legally convened on a first call when at least 75.0% of the shares representing our outstanding capital are present or duly represented. Resolutions at an extraordinary meeting of shareholders pursuant to a first call are valid when adopted by the holders of at least 50.0% of our capital. On a second or subsequent call, extraordinary shareholders' meetings are legally convened when at least 50.0% of the shares representing our outstanding capital are present or duly represented. Resolutions at an extraordinary meeting of shareholders pursuant to a second or subsequent call are valid when adopted by the holders of shares representing at least 50.0% of our capital.

Notwithstanding the preceding paragraph, the affirmative vote of shares with or without voting rights (i) representing 75.0% of our outstanding capital stock is required to amend our bylaws (except for provisions relating

to change of control, which require 66.0%) and (ii) representing 95.0% of our outstanding capital stock is required to meet and request the cancellation of the registration by the CNBV of our shares with the RNV, pursuant to the provisions of the LMV and other applicable provisions.

Dividends and Distributions

Typically, at an annual ordinary shareholders' meeting, the Board of Directors submits our financial statements for the previous fiscal year to the shareholders for approval. Once shareholders approve the financial statements, they determine the allocation of our net income for the preceding fiscal year. Pursuant to the law and our bylaws, prior to any distribution of dividends we deduct the amounts that legally correspond to (i) the income tax of the concerning fiscal year; (ii) the payment of profit sharing to our employees, if applicable; (iii) the redemption of losses generated in past fiscal years, if applicable; and (iv) at least 5.0% of our net income to a legal reserve fund, until such legal reserve fund is equal to at least 20.0% of our paid-in capital stock. Additional amounts may be allocated to other reserve funds as the shareholders may determine, including amounts allocated to a reserve for the repurchase of shares. The remaining balance, if any, may be distributed as dividends.

All shares outstanding at the time a dividend or other distribution is declared are entitled to participate in such dividend or other distribution. If and when we declare dividends, we will distribute through Indeval cash dividends on shares held through Indeval. Any cash dividends on shares evidenced by physical certificates will be paid by surrendering to us the relevant dividend coupon registered in the name of its holder. See "Dividends and Dividend Policy."

While there are currently no restrictions on our ability to pay dividends, certain of our subsidiaries are restricted from paying dividends to us in accordance with their debt obligations.

Changes to our Capital Stock

The fixed portion of our capital stock may be increased or decreased by a resolution adopted by our shareholders in an extraordinary shareholders' meeting, provided that our bylaws are concurrently amended to reflect the increase or decrease in the capital stock. The variable portion of our capital stock may be increased or decreased by our shareholders in an ordinary shareholders' meeting without the amendment of our bylaws.

Increases or decreases in the fixed or variable portion of our capital stock must be recorded in our capital variations registry book, which we are required to maintain under the LGSM. Any minutes from a shareholders' meeting with a resolution increasing or decreasing the fixed portion of our capital stock must be notarized and registered in the Public Registry of Commerce of our corporate domicile whereas the minutes from a shareholders' meeting with a resolution increasing or decreasing the variable portion of our capital stock are only required to be notarized. New shares cannot be issued unless the issued and outstanding shares at the time of the issuance have been paid in full, except in certain limited circumstances.

Share Repurchases

We may choose to acquire our own shares through the BMV on the following terms and conditions:

- the acquisition must be carried out through the BMV;
- the acquisition must be carried out at market price, unless a public offer or auction has been authorized by the CNBV;
- the acquisition must be carried out against our net worth (*capital contable*), without approving a capital stock reduction, or against our capital stock, in which case the shares so acquired will be held as treasury stock without any requirement to adopt a resolution approving a capital stock reduction. No shareholder consent is required for such purchases.
- the amount and price paid in any share repurchase must be made public;

- the annual ordinary shareholders meeting must determine the maximum amount of funds to be used in any fiscal year for the repurchase of shares;
- we may not be delinquent on payments due on any outstanding debt instruments issued by us that are registered with the RNV; and
- any acquisition of shares must be in accordance with the requirements of Article 56 of the LMV, and we must maintain a sufficient number of outstanding shares to meet the minimum trading volumes required by the stock markets on which our shares are listed.

The economic and voting rights corresponding to repurchased shares may not be exercised during the period in which we own such shares, and such shares are not deemed to be outstanding for purposes of calculating any quorum or vote at any shareholders' meeting during such period.

Ownership of Capital Stock by Subsidiaries

Our subsidiaries may not, directly or indirectly, invest in our shares, except for shares acquired as part of an employee stock option plan and in conformity with the LMV.

Redemption

Subject to the approval of shareholders in a general extraordinary shareholders' meeting, shares representing our capital stock are subject to redemption in connection with either (i) a reduction of capital stock or (ii) a redemption with retained earnings. In connection with a capital reduction, the redemption of shares shall be made pro rata among the shareholders. In the case of a redemption with retained earnings, such redemption shall be conducted (i) by means of a tender offer conducted on the BMV, in accordance with the process, prices, terms and conditions approved at a general extraordinary shareholders' meeting, or by our Board of Directors if such authority is delegated by the shareholders, and (ii) pro rata among the shareholders.

Dissolution or Liquidation

Upon dissolution of the issuer, one or more liquidators must be appointed at an extraordinary shareholders' meeting to wind up the issuer's affairs. All fully paid and outstanding shares of capital stock will be entitled to participate equally in any liquidation proceeds.

Registration and Transfer

Our shares are registered with the RNV, as required under the LMV and regulations issued by the CNBV. Shares are evidenced by certificates issued in registered form, which are to be deposited with Indeval at all times. Our shareholders may only hold their shares in book-entry form, through participants that have accounts with Indeval. Indeval is the holder of record in respect of all of the shares. Accounts may be maintained at Indeval by brokers, banks and other Mexican and non-Mexican financial institutions and entities authorized by the CNBV to be participants at Indeval. In accordance with Mexican law, only persons listed in our stock registry, and holders of certificates issued by Indeval coupled with certificates issued by Indeval participants, will be recognized as our shareholders. Under the LMV, certifications issued by Indeval, together with certifications issued by Indeval participants, are sufficient to evidence ownership of our shares and to exercise rights in respect of those shares, at meetings of shareholders or otherwise. Transfers of shares must be registered through book entries that may be traced back to the records of Indeval.

Preemptive Rights

Under Mexican law and our bylaws, our shareholders have preemptive rights for all share issuances or capital stock increases, except in the cases noted below. Generally, if we issue additional shares of capital stock, our stockholders will have the right to purchase the number of shares necessary to maintain their existing ownership percentage. Stockholders must exercise their preemptive rights within the time periods set forth by our shareholders at the meeting approving the relevant issuance of additional shares. This period may not be less than 15 days following

the publication of notice of the issuance in the Official Gazette or in the official newspaper of the registered office of the Company.

Under Mexican law, stockholders cannot waive their preemptive rights in advance, and preemptive rights may not be represented by an instrument that is negotiable separately from the corresponding share. Preemptive rights will not apply to (i) shares issued by us in connection with mergers; (ii) shares issued in connection with the capitalization of accounts specified in our balance sheet; (iii) the resale by us of shares held in our treasury as a result of repurchases of shares conducted by us on the BMV; and (iv) shares to be placed in a public offering pursuant to Article 53 of the Mexican Securities Market Law, which permits the non-applicability of preemptive rights in connection with public offerings by existing public companies, if the issuance of those shares was approved at a general stockholders' meeting.

Certain Minority Protections

Pursuant to the LMV and the LGSM, our bylaws include a number of minority shareholder protections. These minority protections include provisions that allow:

- holders of at least 10.0% of our outstanding share capital entitled to vote (including voting in a limited or restricted manner): (i) to request a call for a shareholders' meeting; (ii) to request that resolutions, with respect to any matter on which they were not sufficiently informed, to be postponed; and (iii) to appoint or revoke the appointment of one principal member of our Board of Directors and its corresponding alternate member for every 10.0% of our outstanding share capital held;

- holders of at least 20.0% of our outstanding capital stock to oppose any resolution adopted at a shareholders' meeting and file a petition for a court order to suspend the resolution if the claim is filed within 15 days following the adjournment of the meeting at which the action was taken, provided that (i) the challenged resolution violates Mexican law or our bylaws; (ii) the opposing shareholders neither attended the meeting nor voted in favor of the challenged resolution; and (iii) the opposing shareholders deliver a bond to the court to secure payment of any damages that we may suffer as a result of suspending the resolution in the event that the court ultimately rules against the opposing shareholder; however, these provisions have seldom been invoked in Mexico, and, as a result, it is uncertain how a competent court may enforce such provisions; and

- holders of at least 5.0% of our outstanding shares may initiate an action for civil liabilities against some or all of our directors, as a shareholder derivative suit, for violations of their duty of care or their duty of loyalty, for our benefit, in an amount equal to the damages or losses caused to us; however any such actions are subject to a statute of limitations of five years.

The protections afforded to minority shareholders under Mexican law are different from those in the United States and many other jurisdictions. The substantive law concerning fiduciary duties of directors has not been the subject of extensive judicial interpretation in Mexico, unlike many states in the United States where duties of care and loyalty elaborated by judicial decisions help to shape the rights of minority shareholders. Shareholders cannot challenge corporate action taken at a shareholders' meeting unless they meet certain procedural requirements.

As a result of these factors, in practice it may be more difficult for our minority shareholders to enforce rights against us or our directors than it would be for shareholders of a U.S. company.

Anti-Takeover Protections

According to our bylaws, and subject to certain exceptions set forth therein, no person or group of persons may (i) acquire, directly or indirectly, shares if such acquisition would result in the ownership by such person or group of persons of an amount equal to or greater than 9.99% of our total shares or (ii) enter into agreements that have as their purpose or result in the formation or adoption of mechanisms or voting partnership agreements, or agreements to vote in block or in conjunction, involving a change in control of our company or a stake of at least 20.0% in our capital stock or results in a change of control, without the prior authorization of our Board of Directors. The Board of Directors shall approve or reject the request for authorization within 90 days following its receipt of such request, which request must contain all the information required by the Board of Directors in accordance with our bylaws. At least 66% of the members of the Board of Directors must approve the acquisition or voting agreement at issue.

If a person or group of persons holds greater than 10.0% of our shares, such person or group of persons must also notify the Board of Directors of any acquisition made that results in an increase in the shares owned by such person or group of persons of 2.0% or more of our total shares.

If the Board approves an acquisition or voting agreement, and the acquisition or voting agreement would result in a participation of a person or group of persons in 20.0% or greater of our total shares or in a change of control, the person or group of persons intending to acquire or enter into the voting agreement, as applicable, shall, in addition, make a tender offer for 100.0% of our total shares, in accordance with the LMV, at a price equal to the highest of: (x) the book value per share according to the most recent quarterly financial statements approved by the Board of Directors or submitted to the CNBV and the BMV; (y) the highest closing price per share with respect to transactions on the BMV published on any of the 365 days prior to the date of filing of the application or the authorization granted by the Board of Directors regarding the relevant transaction; or (z) the highest price paid during the 365 days prior to the date of filing of the application or the authorization granted by the Board of Directors, for the purchase of any shares by the person or group of persons who intends to acquire the shares or enter into the voting agreement, which is the subject of the request authorized by the Board of Directors, plus, in each case, a premium equal to 15.0% of the price per share to be paid in connection with the requested acquisition, with the understanding that the Board of Directors may increase or decrease the amount of the premium, in consultation with a recognized investment bank. To the extent that the Board rejects an acquisition or voting agreement resulting in a participation of equal to or greater than 20.0% of our share capital by such person or group of persons or involving a change of control, which acquisition or voting agreement nonetheless has met all the requirements established in the bylaws, including the minimum price set above, the Board of Directors must convene a shareholders' meeting, during which a simple majority may ratify such rejection or otherwise approve the acquisition or voting agreement in question.

If the afore-described acquisitions of shares or restricted voting agreements take place or are entered into without obtaining the prior written approval of the Board of Directors (or via the shareholders' meeting in the case described above), the shares subject to such acquisitions or the voting agreements will not have the right to vote at any shareholders' meeting, and the shares will not be registered in our share registry. Furthermore, the Board of Directors may enact the following measures, among others: (i) the reversal of those transactions carried out, with mutual restitution among the parties to the extent possible or (ii) the transfer of the shares that were the subject of the acquisition, to a third party approved by the Board of Directors at a minimum price determined by the Board.

Certain transactions are exempt from the application of the provisions of our bylaws intended to prevent a change of control, such as: (i) acquisitions of shares made by succession, either through inheritance or bequest; (ii) acquisitions of shares or the entering into of any voting agreement on behalf of us or of trusts created by us; or (iii) the creation of a voting trust or similar entity by the existing shareholders on the date of the global offering, which will be performed at some point in the future.

The provisions of our bylaws intended to prevent a change of control may only be removed from the bylaws or modified by the favorable resolution of (i) until May 22, 2015, shareholders representing at least 95.0% of the shares outstanding or (ii) at any time on or following May 23, 2015, shareholders representing 66.0% of shares outstanding at such time.

Delisting or Cancellation of Registration with the RNV

If we wish to cancel our registration of shares with the RNV, or if it is cancelled by the CNBV, any controlling shareholders that we may have are required to conduct a tender offer to purchase all the outstanding shares held by minority shareholders prior to such cancellation. Shareholders deemed to have "control," as defined in the relevant provisions of the LMV, are those that own a majority of our shares, have the ability to control the outcome of decisions made at our shareholders' meetings, or have the ability to appoint or revoke the appointment of a majority of the members of our Board of Directors, managers or equivalent officers, or that may control directly or indirectly our administration, strategy or principal policies.

In accordance with applicable law and regulations and our bylaws, in the event that any controlling shareholders that we may have are unable to purchase all of our outstanding shares pursuant to a tender offer, they will be required to create a trust for a period not to exceed six months and contribute to it funds in an amount sufficient to purchase, at the same price that was set at the tender offer, all of the outstanding shares that remain held by the general public.

The offer price will be the higher of: (i) the weighted average quotation price per share on the BMV for the 30 trading days prior to the date on which the tender offer is made or (ii) the book value of the shares in accordance with the most recent quarterly report submitted to the CNBV and the BMV.

The voluntary cancellation of the registration shall be subject to (i) the prior authorization of the CNBV and (ii) the authorization of not less than 95.0% of the holders of outstanding capital stock in an extraordinary shareholders meeting.

Pursuant to Mexican law, the CNBV may, under certain circumstances, cancel the registration of our shares with the RNV.

Tender Offer Rules

Under the LMV, any person or group of persons that, directly or indirectly, in a single transaction or in a series of transactions, intends to acquire control of our outstanding shares (or any percentage of our outstanding shares equal to or exceeding 30.0% of our outstanding shares), would be required to, besides obtaining the approval of our Board of Directors and stockholders, undertake a tender offer for 100.0% of our outstanding shares or for the relevant lower percentage of the transaction requiring the tender offer is for less than 51.0% of our outstanding shares, at a price equal to the greater of (i) the average trading price for our shares, for 30 trading days prior to the offer, or (ii) the last reported book value per share. The LMV defines control, for these purposes, as: (i) the ability to impose decisions, directly or indirectly, at a shareholders' meeting; (ii) the right to vote 50.0% or more of our shares; or (iii) the ability to cause, directly or indirectly, that our management, strategy or policies be pursued in any given fashion.

In connection with a tender offer, our Board of Directors is required, subject to the prior opinion of our Corporate Practices Committee, to give an opinion in respect of the price of the offer. Prior to expressing such opinion, our Board of Directors may request the opinion of an independent third party expert. The members of our Board of Directors and our CEO are required to disclose to the public whether or not each of them will sell any of our shares owned by them in the tender offer.

Additional Matters

Variable Capital

We are permitted to issue shares representing fixed capital and shares representing variable capital. The issuance of variable-capital shares, unlike the issuance of fixed-capital shares, does not require an amendment of the bylaws, although it does require a majority vote of our shares.

Forfeiture of Shares

As required by Mexican law, our bylaws provide that any non-Mexican shareholder shall be considered as a Mexican citizen with respect to shares held by it, property rights, concessions, participations and interests we own and rights and obligations derived from any agreements we have with the Mexican government. Non-Mexican shareholders shall be deemed to have agreed not to invoke the protection of their governments, under penalty, in case of breach of such agreement, of forfeiture to the Mexican government of such interest or participation. Mexican law requires that such a provision be included in the bylaws of all Mexican corporations unless such bylaws or applicable law prohibit ownership of shares by non-Mexican persons.

Conflict of Interest

Pursuant to the LGSM, a shareholder that votes on a business transaction in which its interest conflicts with our interests must abstain from any deliberation on the applicable matter. A breach by any shareholder of any such obligation may result in the shareholder being liable for damages, but only if the transaction would have not been approved without this shareholders' vote.

Appraisal rights

Pursuant to the LGSM, whenever the shareholders approve a change in our corporate purpose, nationality or corporate form, any shareholder entitled to vote that voted against the approval of such matter is entitled to withdraw its shares at book value, as set forth in the financial statements last approved by our shareholders; provided it exercises its appraisal rights within 15 days following the adjournment of the meeting at which the relevant change was approved.

TAXATION

The following summary contains a general description of certain Mexican federal and U.S. federal income tax consequences of the acquisition, ownership and disposition of our shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, hold or sell our shares. In particular, this summary does not describe any tax consequences arising under the laws of any state, municipality or taxing jurisdiction other than certain federal laws of Mexico and the United States.

This discussion does not constitute, and should not be considered as, legal or tax advice to prospective holders of our shares. The discussion is for general information purposes only and is based upon the federal tax laws of Mexico and of the United States as in effect on the date of this offering memorandum (including the "Tax Treaty," as defined below), which are subject to change, and such changes may have retroactive effect. Potential investors in our shares should consult their own tax advisors as to the Mexican, U.S. or other tax consequences of the purchase, ownership and disposition of our shares, including, in particular, the effect of any foreign, state or local tax laws and any tax treaties to which Mexico is a party, which are in effect.

The Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion, and the protocols thereto, between the United States and Mexico, became effective on January 1, 1994 and were amended by an additional protocol on July 3, 2003 (collectively, the "Tax Treaty"). The United States and Mexico have also entered into an agreement concerning the exchange of information with respect to tax matters.

Mexican Tax Considerations

Non-Mexican Residents

The following summary contains a description of certain relevant tax consequences under the Mexican Federal Tax Laws of the acquisition, ownership and disposition of our shares by a holder of such shares that is a non-Mexican holder (as described below), and it does not purport to be a comprehensive description of all of the Mexican tax considerations that may be relevant to a decision to purchase, hold or dispose of our shares. In addition, this summary does not address any United States or other country or Mexican state or municipal tax considerations that may be relevant to any non-Mexican holder.

This summary is intended to be for general information purposes only and is based upon the Mexican Federal Tax Laws as in effect on the date of this offering memorandum, which are subject to change. Any change could affect the continued validity of this description.

Prospective investors in the shares should consult their own tax advisors as to the United States, Mexican or other tax consequences of the purchase, ownership and disposition of the shares including, in particular, the effect of any foreign, state or local tax laws, and their entitlement to the benefits, if any, afforded by the income tax treaty between Mexico and the United States (the "Tax Treaty") and other tax treaties to which Mexico may be a party and that are in effect.

For purposes of this summary, the term "non-Mexican holder" shall mean a holder that is not a resident of Mexico for tax purposes, and that will not hold the shares, or a beneficial interest therein, in connection with the conduct of a trade or business, through a permanent establishment for tax purposes in Mexico.

For purposes of Mexican taxation:

- individuals are residents of Mexico for tax purposes if they have established their residence in Mexico or, if they also have a residence outside Mexico, if their center of vital interest (*centro de intereses vitales*) is located within Mexican territory. The center of vital interest will be deemed to be located in Mexico if (i) at least 50.0% of their aggregate annual income derives from Mexican sources of wealth or (ii) the main center of their professional activities is located in Mexico. Mexican nationals who changed their tax residence to a country or jurisdiction that does not have a comprehensive exchange of information agreement with Mexico and in which their income is subject to a preferred tax regime pursuant to the provisions of the Mexican Income Tax Law, will be considered Mexican residents for tax purposes during the fiscal year of filing of the notice of such residence change and during the following three fiscal years;

- unless proven otherwise, a Mexican national individual shall be deemed a Mexican resident for tax purposes. An individual will also be considered a resident of Mexico for tax purposes if such individual is a state employee, regardless of the location of the individual's center of vital interest; and

- a legal entity is a resident of Mexico for tax purposes if it maintains the principal administration of its business or the place of effective management in Mexico.

Non-residents of Mexico who are deemed to have a permanent establishment in Mexico for tax purposes shall be subject to Mexican tax laws, and all income obtained attributable to such permanent establishment will be subject to Mexican taxes in accordance with the Mexican Income Tax Law.

Non-residents of Mexico for tax purposes that become holders of our shares will neither be deemed to be residents of Mexico for tax purposes nor be deemed to have a permanent establishment in Mexico for tax purposes exclusively for purchasing, owning or disposing of such shares.

Mexican tax residents—both individuals and legal entities—are taxed on worldwide income basis regardless of the location of the source of the income. Mexican resident individuals are subject to income tax at progressive rates, while legal entities are subject to income tax at the applicable corporate tax rate. The current maximum income tax rate for individuals is 35% and the current corporate income tax rate for legal entities is 30.0%.

Taxation on Dividends

Pursuant to the provisions of the Mexican Income Tax Law, beginning in 2014, dividends and profits distributed by a Mexican corporation to non-Mexican holders, shall be subject to a 10.0% withholding tax. This tax is considered final and cannot be credited against any other tax in Mexico. The 10.0% dividend tax is imposed at the shareholder level over the gross dividend amount. Non-residents of Mexico holders may claim tax treaty benefits to reduce the Mexican 10.0% withholding tax charge.

The new 10.0% income tax withholding will apply to profit generated beginning in 2014. For these purposes, Mexican corporations will be required to keep a net after-tax profit account ("CUFIN") as of December 2013 and create a new CUFIN account starting in 2014. Dividends paid out of the CUFIN balance existing as of December 2013 would not be subject to the 10.0% income tax withholding.

Dividends paid from distributable earnings that have not been subject to Mexican corporate income tax are subject to a tax at the corporate level, payable by us. This corporate tax on the distribution of earnings is not final and may be credited by us against income tax payable by us during the fiscal year in which the tax was paid and in the following two years. For such purposes, Mexican legal entities are obliged to maintain a CUFIN, the balance of which will be increased by the net after tax profit for each tax year, as well as by any dividends received from other Mexican entities, and decreased by distributions of previously taxed profits.

Taxation on Capital Gains

Beginning in 2014, gains on the sale of shares issued by Mexican residents, by a non-Mexican holder will generally be subject to Mexican withholding income tax at a 10.0% rate, if the transaction is carried out through the BMV or other stock exchange or securities market approved by the Ministry of Finance and Public Credit. However, non-Mexican holders who are residents of a country that has signed a tax treaty with Mexico may be tax exempt to the extent they provide a sworn representation to the financial intermediary about their residence in a tax treaty country and provide their tax identification number, except in the cases described in the following paragraph (*i.e.* the 10.0% withholding charge would not apply, but the general 35.0% capital gains withholding rate would). If the non-Mexican holder fails to provide the residency/tax ID representations on a trade by trade basis, the financial intermediary would be required to withhold.

In the event that the financial intermediary participating in a transaction does not have the custody and administration of our shares and therefore is unable to determine the tax cost basis of the shares, non-Mexican holders may be required to provide such information to the financial intermediary. Failure to provide such information may cause the financial intermediary to withhold 10.0% over the gross amount of the transaction in taxes.

The 10.0% rate shall not be applicable to the non-Mexican holders of shares or securities that are not considered publicly placed or whenever shares were acquired off exchanges, unless the sale in stock exchanges comprises shares equal to or less than 1.0% of our outstanding shares, in a single transaction or a series of transactions, during any 24-month period, except in the cases (i) and (ii) described below.

The Mexican Income Tax Law provides that (i) any person or group of persons that, directly or indirectly, hold 10.0% or more of our outstanding shares, are not subject to the new 10.0% income tax on the gains realized from the sale or other disposition of our shares, regardless of whether the sale or disposition is carried out through the BMV or such other approved securities market, if the sale comprises a block of shares equal to or exceeding 10.0% of our outstanding shares, in a single transaction or a series of transactions, during any 24-month period, except in the case described below. The referred 10.0% income tax does not apply (ii) if the person or group of persons that control us, sell the control of the company either in a single transaction or a series of transactions, during any 24-month period. The new 10.0% income tax described in the previous paragraph will not be applicable (iii) to pre-negotiated or protected trades executed through the BMV, which preclude the holders from accepting more competitive offers than those received prior to and during the period in which they are offered for sale. Finally the 10.0% withholding charge would not apply (iv) with respect to shares received as a consequence of a merger or spin-off process, whenever the shares of the spin-off or of the merged entity qualify under assumptions (i), (ii) or (iii) referred to above. If the sale carried out through the BMV were not subject to the 10.0% income tax, the capital gain would be subject to a 35.0% rate on the gain realized from the sale of the shares on a net basis to be withheld by the financial intermediary.

Transfers of shares by a non-resident shareholder carried out in a different manner are generally subject to a 25.0% income tax rate in Mexico, which is applicable to the gross proceeds realized from the sale. Should the buyer in any such transactions be a Mexican resident for tax purposes, or a non-resident with a permanent establishment in Mexico for tax purposes, the applicable tax should be withheld by such Mexican resident from the acquisition price and remitted to the Mexican Federal Treasury. Alternatively, a non-resident shareholder may, subject to certain requirements, opt to pay capital gains taxes on the gains realized from the sale of the shares on a net basis at a rate of 35.0%.

Under the Tax Treaty, a holder that is eligible to claim the benefits under such Tax Treaty may be exempt from the 10.0% Mexican tax on gains realized from a sale or other disposition of shares issued by a Mexican entity in a transaction that is or is not conducted through the BMV or such other approved securities market, to the extent such holder did not own, directly or indirectly, 25.0% or more of the outstanding shares of the issuer during the twelve-month period preceding the date of the sale or disposition, and provided that certain formal requirements set forth by the Mexican Income Tax Law are also complied with. The Tax Treaty specifically excludes this benefit in the case of shares issued by an entity whose value derives mainly from real estate located in Mexico.

Other Mexican Taxes

There is currently no Mexican estate, gift, inheritance or value-added tax applicable to the purchase, ownership or disposition of our shares by a non-Mexican resident for tax purposes; however, gratuitous transfers of our shares may, in certain circumstances, result in the imposition of Mexican federal income tax on the recipient.

There is currently no Mexican stamp, issue, registration or similar tax or duty payable by a non-resident of Mexico for tax purposes with respect to the purchase, ownership or disposition of the shares.

Mexican Residents

The following summary contains a description of certain relevant tax consequences under the Mexican Federal Tax Laws of the acquisition, ownership and disposition of our shares by a holder of such shares that is a Mexican resident for tax purposes (as described above), and it does not purport to be a comprehensive description of all of the Mexican tax considerations that may be relevant to a decision to purchase, hold or dispose of our shares.

Mexican Legal Entities

Under the Mexican Federal Tax Laws, any incorporated entity, such as an S.A. or an S.R.L., is treated as a separate entity for tax purposes. Therefore, Mexican and non-Mexican entities or individual shareholders of a Mexican

entity are not directly subject to taxation in Mexico solely as a result of holding an interest in a Mexican entity. Under the Mexican Federal Tax Laws, no Mexican tax is levied on capital contributions.

However, gains on the sale of shares by Mexican entities will be subject to income tax as ordinary income at a rate of 30.0%. Such gain on the sale of shares must be considered for purposes of the advance payments of the Mexican entity corresponding to the month in which the transaction is carried out and must be included in its annual tax return.

In the case that the tax cost basis of the shares is higher than the sales price, Mexican entities will generate a tax loss that, in principle, may only be deducted against the amount of the gains on the sale of shares that are obtained by the same Mexican entity in the related year in question or the following ten years.

Mexican Individuals

Taxation on Dividends

Pursuant to the provisions of the Mexican Income Tax Law, beginning in 2014, dividends and profits received by holders that qualify as Mexican individuals shall be subject to a 10.0% withholding tax as a definitive payment, with respect to our shares, which cannot be credited against the annual income tax liability of the Mexican individual. The 10.0% dividend tax is imposed at the shareholder level over the gross dividend amount. The new 10.0% income tax withholding will apply to profits generated beginning in 2014. For these purposes, Mexican entities would be required to keep a CUFIN account as of December 2013 and create a new CUFIN account starting in 2014. Dividends paid out of the CUFIN balance existing as of December 2013 would not be subject to the 10.0% income tax withholding.

Taxation on Capital Gains

Beginning in 2014, under the Mexican Federal Tax Laws, gains on the sale of shares issued by Mexican residents, or shares issued by non-Mexican companies or instruments that represent such shares, or share indexes, by a Mexican individual will be subject to a new 10.0% Mexican income tax, if the transaction is carried out through the BMV or other stock exchange or securities market approved by the Secretary of Finance and Public Credit, subject to certain limitations described below. No withholding is made by the financial intermediaries during the year and no advance payments are due. However, an annual tax return must be filed by the Mexican individual holder showing the 10.0% income tax on the net figure of overall gains and losses generated in the year. The financial intermediaries would determine gains or losses obtained by the Mexican individual holder for each publicly traded share transferred during the year and provide an annual statement showing the gains or losses obtained by the Mexican individual holder for our shares.

Any unused losses can be carried forward during the following ten tax years, until exhausted, against publicly traded gains. The carry forward procedure is subject to a specific inflationary restatement procedure.

The 10.0% rate does not apply if the shares or securities are not considered publicly placed or whenever shares were acquired off exchanges, unless the sale in stock exchanges comprises shares equal to less than 1.0% of our outstanding shares, in a single transaction or a series of transactions, during any 24-month period, except in cases (i) and (ii) described below.

The Mexican Income Tax Law provides that (i) any person or group of persons that directly or indirectly hold 10.0% or more of our outstanding shares are not subject to the 10.0% income tax on the gains realized from the sale or other disposition of our shares, regardless of whether the sale or disposition is carried out through the BMV or such other approved securities market, if the sale comprises a block of shares equal to or exceeding 10.0% of our outstanding shares, in a single transaction or a series of transactions, during any 24-month period. Additionally, this new 10.0% income tax does not apply (ii) if the person or group of persons that control us sell the control of the company either in a single transaction or a series of transactions, during any 24-month period. The 10.0% income tax described in the previous paragraph will not be applicable (iii) to pre-negotiated or protected trades executed through the BMV, which preclude the holders from accepting more competitive offers than those received prior to and during the period in which they are offered for sale. Finally, the 10.0% withholding tax would not apply (iv) with respect to shares received as a consequence of a merger or spin-off process, whenever the shares of the spin-off or of the merged entity qualify under assumptions (i), (ii) or (iii) referred to above. If the sale carried out through the BMV is not

subject to the 10.0% income tax, the taxpayer would be subject to a 35.0% rate on the gain realized from the sale of the shares on a net basis.

Gains received by a Mexican individual in transactions not carried out through the BMV are considered taxable as ordinary income at the maximum income tax rate for individuals of 35.0%, and with regards to annual tax liability, the tax shall be withheld by the buyer if it is a Mexican resident or a non-resident having a permanent establishment located in Mexico; otherwise, an advanced tax payment has to be made through a tax return to be filed within the following 15 business days by the Mexican individual seller.

In the case that the tax cost basis of the shares not carried out through the BMV is higher than the sales price, Mexican individuals will generate a tax loss that may be deducted against their income, except against salaries income and income from professional and entrepreneurial activities.

Other Mexican Taxes

There is currently no Mexican estate, gift, inheritance or value-added tax applicable to the purchase, ownership or disposition of our shares by a Mexican residents for tax purposes; however, gratuitous transfers of our shares may, in certain circumstances, result in the imposition of Mexican federal income tax on the recipient.

There is currently no Mexican stamp, issue, registration or similar tax or duty payable by a Mexican resident for tax purposes with respect to the purchase, ownership or disposition of the shares.

Certain U.S. Federal Income Tax Considerations

The following summary describes certain U.S. federal income tax consequences for a U.S. Holder (as defined below) of acquiring, owning and disposing of our shares of common stock. This summary deals only with U.S. Holders that will hold our shares as capital assets for U.S. federal income tax purposes, and does not purport to deal with all U.S. federal income tax considerations that may be relevant to a particular investor. In particular, this summary does not address the tax consequences that may be applicable to persons in special tax situations, including, without limitation, banks, financial institutions, regulated investment companies, partnerships (and partners in a partnership) or other pass-through entities, dealers, traders who elect to use a mark to market method of accounting, insurance companies, investors who hold our shares as part of a hedge, straddle, conversion, integrated transaction, or other risk-reduction transaction, tax-exempt entities, including individual retirement accounts, persons liable for the alternative minimum tax, investors who have a "functional currency" other than the U.S. dollar or investors who own or are treated as owning 10.0% or more of the voting shares of our company. This discussion does not address the tax consequences to U.S. Holders of acquiring, owning or disposing of shares under any U.S. federal estate or gift, U.S. state or local, foreign or other tax laws.

For purposes of this discussion, you will be a "U.S. Holder" if you are the beneficial owner of a share of common stock and you are an individual who is a citizen or resident of the United States, a U.S. domestic corporation or otherwise subject to U.S. federal income tax on a net income basis with respect to income from our shares.

This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, final, temporary and proposed regulations promulgated thereunder, administrative pronouncements and judicial decisions, all as currently in effect. These authorities are subject to change, possibly on a retroactive basis, and could result in U.S. federal income tax consequences different from those discussed below.

You should consult your own tax advisers concerning the U.S. federal, state, local, foreign and other tax consequences of purchasing, owning and disposing of shares in light of your particular circumstances.

Taxation of Dividends

The gross amount of cash distributions made with respect to our shares (including any amounts withheld to reflect Mexican withholding taxes) generally will be treated as dividends to the extent such distribution is actually or constructively paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). We do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend. The dividends will

be treated as foreign-source income and will not be eligible for the dividends-received deduction generally available to U.S. corporations.

Any distributions paid in pesos will be included in your income in a U.S. dollar amount calculated by reference to the spot rate of exchange in effect on the date of your receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars on such date. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. If such a dividend is not converted into U.S. dollars on the date of receipt, you generally will have a basis in the non-U.S. currency equal to its U.S. dollar value on that date. You generally will be required to recognize foreign currency gain or loss realized on a subsequent conversion or other disposition of such currency, which will be treated as U.S.-source ordinary income or loss. You should consult your own tax advisers regarding the treatment of foreign currency gain or loss, if any, on any pesos received that are converted into U.S. dollars on a date subsequent to receipt.

Dividends received by certain non-corporate U.S. Holders will generally be subject to taxation at reduced rates if the dividends are "qualified dividends." Dividends paid on our shares will be qualified dividends if (i) we were not, in the year prior to the year in which the dividend payment was made, and are not, in the year in which the dividend payment is made, a passive foreign investment company ("PFIC") and (ii) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service (the "IRS") has approved for purposes of the qualified dividend rules. We expect to be eligible for the benefits of the Tax Treaty (which has been approved by the IRS for the purpose of the qualified dividend rules). Based on our financial statements and current expectations regarding our income, assets and activities, we believe that we were not a PFIC in 2013 and do not anticipate becoming a PFIC in 2014 or in the foreseeable future. Accordingly, we expect that the dividends received by non-corporate U.S. Holders will generally be subject to taxation at a lower rate than other ordinary income. If we were to be a PFIC for any taxable year during which a U.S. Holder holds our shares, certain adverse U.S. federal income tax consequences (including, but not limited to, the treatment of dividends received by non-corporate U.S. Holders as other than qualified dividends) could apply.

Mexican withholding tax imposed on distributions with respect to our shares may be eligible (subject to generally applicable limitations and conditions under U.S. tax laws) for credit against your federal income tax liability or, at your election, for deduction in computing your taxable income. The use of foreign tax credits is subject to complex rules and limitations.

You are urged to consult your tax adviser concerning whether, and to what extent, a foreign tax credit will be available, and, if so, whether to claim a credit or deduction, and concerning your eligibility for benefits, if any, under the Tax Treaty.

Taxation on Sale, Exchange or Other Disposition

Upon a sale, exchange, or other taxable disposition of our common shares, you will generally recognize capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized on the disposition and your adjusted tax basis in the shares as determined in U.S. dollars. Such gain or loss generally will be U.S.-source gain or loss, and will be long-term capital gain or loss if you have held our shares for more than one year. Certain non-corporate U.S. Holders may be eligible for preferential rates of U.S. federal income tax in respect of net long-term capital gains. The deductibility of capital losses is subject to limitations.

The amount realized on a sale or other taxable disposition of our shares for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or disposition. On the settlement date, you will recognize U.S.-source foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the U.S. dollar value of the amount received based on the exchange rates in effect on the date of sale or other disposition and the settlement date. However, in the case of shares traded on an established securities market that are sold by a cash basis U.S. holder (or an accrual basis U.S. Holder that so elects), the amount realized will be based on the exchange rate in effect on the settlement date for the sale, and no exchange gain or loss will be recognized at that time. An accrual method U.S. Holder that makes such an election must apply it from year to year and cannot change the election without the consent of the IRS.

Your tax basis in our shares will generally equal the U.S. dollar cost of the shares to you. The U.S. dollar cost of shares purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of

purchase, or the settlement date for the purchase in the case of shares traded on an established securities market that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects).

If any Mexican withholding tax is imposed on the disposition of your shares, you may be able to claim a foreign tax credit for such withholding tax, but your ability to do so may be substantially limited, unless you have certain other income from foreign sources or you qualify for certain tax benefits under the Tax Treaty, because any capital gain on a disposition of your shares would generally be U.S.-source capital gain. U.S. Holders should consult their own tax advisors regarding the application of the foreign tax credit rules and the Tax Treaty to an investment in and disposition of our shares.

Medicare Contribution Tax on Unearned Income

Certain U.S. Holders who are individuals, estates or trusts are subject to a 3.8% Medicare tax on, among other things, any dividend payments on, and proceeds from the sale or other taxable disposition of, our shares, subject to certain limitations and exceptions. U.S. Holders should consult their tax advisors regarding the effect, if any, of the Medicare tax on their ownership and disposition of our shares.

U.S. Information Reporting and Backup Withholding

Dividend payments and proceeds from the sale or other disposition of our shares that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and to backup withholding unless you (i) establish that you are not a U.S. Holder or you are an exempt recipient and under certain circumstances comply with any applicable certification requirements or (ii) timely provide an accurate taxpayer identification number and certify that you are not subject to backup withholding and otherwise comply with applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that certain required information is furnished to the IRS.

PLAN OF DISTRIBUTION

Morgan Stanley & Co. LLC, Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and HSBC Securities (USA) Inc. will act as initial purchasers with respect to the offering of shares sold to investors located outside of Mexico. The global offering consists of the international offering of 63,782,608 shares in the United States and in other countries outside of Mexico and a concurrent public offering of 36,217,392 shares in Mexico by means of a separate Spanish-language prospectus.

Pursuant to the terms and subject to the conditions set forth in the purchase agreement, dated October 8, 2014, each of the initial purchasers has severally agreed to purchase, and we have agreed to sell to the initial purchasers, the number of shares set forth opposite such initial purchaser's name:

Initial Purchasers	Number of Shares
Morgan Stanley & Co. LLC	28,122,721
Citigroup Global Markets Inc.	23,159,887
Merrill Lynch, Pierce, Fenner & Smith Incorporated	10,000,000
HSBC Securities (USA) Inc.	2,500,000
Total	63,782,608

In respect of the Mexican offering, subject to the terms and conditions set forth in the Mexican underwriting agreement (*contrato de colocación*), dated October 8, 2014, Morgan Stanley México, Casa de Bolsa, S.A. de C.V., Acciones y Valores Banamex, S.A. de C.V., Casa de Bolsa, Integrante del Grupo Financiero Banamex, HSBC Casa de Bolsa, S.A. de C.V., Grupo Financiero HSBC and Actinver Casa de Bolsa, S.A. de C.V., Grupo Financiero Actinver (the "Mexican Lead Underwriters"), in their capacity as lead underwriters in Mexico, have agreed to purchase, and we have agreed to sell to the Mexican Lead Underwriters, an aggregate of 36,217,392 shares.

The initial purchasers and the Mexican underwriters have entered into an intersyndicate agreement providing for the coordination of their activities. Under the intersyndicate agreement, the Mexican underwriters may offer and sell a portion of the shares to be sold pursuant to the purchase agreement, the initial purchasers may purchase a portion of the shares to be sold pursuant to the Mexican underwriting agreement, and the initial purchasers and the Mexican underwriters have agreed to coordinate their efforts to stabilize and exercise overallotment options, in each case, on the terms and subject to the conditions set forth in the intersyndicate agreement and observing the applicable rules prescribed by the CNBV.

The closing of the international offering by the initial purchasers and the Mexican offering by the Mexican underwriters are conditioned upon one another and will occur simultaneously. We have granted the initial purchasers an option, exercisable within a period of 30 days from the date of this offering memorandum, to purchase up to an additional 9,567,392 shares at the offering price set forth on the cover of this offering memorandum, less discounts and commissions, to cover overallotments, if any. We have also granted the Mexican underwriters an option, exercisable within a period of 30 days from the date of this offering memorandum, to purchase up to an additional 5,432,608 shares at the offering price set forth on the cover of this offering memorandum, less discounts and commissions, to cover overallotments, if any. To the extent an option is exercised, each initial purchaser and Mexican underwriter, as applicable, must purchase an additional number of shares approximately proportionate to that person's initial commitment. Each of the options granted to the initial purchasers and the Mexican underwriters may be exercised independently, in accordance with applicable law in the relevant jurisdiction. The amount of additional shares may be reallocated between syndicates in accordance with the provisions of the intersyndicate agreement.

The shares have not been, and will not be, registered under the Securities Act, and they may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. Terms used in this paragraph have the meanings given to them by Rule 144A and Regulation S under the Securities Act. Resales of the shares are restricted as described under "Transfer Restrictions."

In addition, until 40 days after the commencement of the offering, an offer or sale of shares within the United States by a dealer (whether or not it is participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

The Mexican underwriting agreement and the purchase agreement provide that the obligation of the Mexican underwriters and the initial purchasers to purchase, offer and sell the shares is subject to, among other conditions, the delivery of certain legal opinions by legal counsel to us in Mexico and by legal counsel to us in the United States and comfort letters from our independent accountants. The initial purchasers must purchase all the shares (other than those covered by the initial purchasers' option to purchase additional shares described below) if they purchase any of the shares. The purchase agreement further provides that if any of the shares covered by such agreements are not purchased, offered or sold, the initial purchasers are obligated, severally and not jointly, to purchase them on a firm commitment basis on the settlement date subject to certain conditions and exceptions contained therein. The shares will initially be offered at the price indicated on the cover page of this offering memorandum and the Mexican prospectus, respectively, less the underwriting discounts and commissions. Purchasers of shares outside of the United States may be required to pay stamp taxes and other charges in compliance with the laws and practices of the country of purchase in addition to the price to investors on the cover page of this offering memorandum. See "Transfer Restrictions." The price at which the shares are offered may be changed at any time without notice.

We have agreed to indemnify the initial purchasers and the Mexican underwriters under the terms of each of the purchase agreement and the Mexican underwriting agreement, respectively, against liabilities, including liabilities under the Securities Act and under the Mexican securities laws, and, in the case of the purchase agreement, to contribute to payments that they may be required to make in that respect, subject to limitations set forth in the purchase agreement in respect of indemnification and contribution and the Mexican underwriting agreement in respect of indemnification.

The initial purchasers and/or their affiliates may enter into derivative transactions in connection with the shares, acting at the order and for the account of their clients. The initial purchasers and/or their affiliates may also purchase some of the shares in this offering as a hedge for such transactions. These transactions may have an effect on demand, price or other terms of the global offering.

Our shares are registered with the RNV maintained by the CNBV. The shares have not been and will not be listed in any national securities exchange or quoted in any automated interdealer quotation system in the United States or elsewhere outside Mexico.

In connection with the offering, the initial purchasers may purchase and sell shares in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions, which may include purchases pursuant to the initial purchasers' option to purchase additional shares, and stabilizing purchases.

- Short sales involve secondary market sales by the initial purchasers of a greater number of shares than they are required to purchase in the offering.
    - "Covered" short sales are sales of shares in an amount up to the number of shares represented by the initial purchasers' option to purchase additional shares.
    - "Naked" short sales are sales of shares in an amount in excess of the number of shares represented by the initial purchasers' option to purchase additional shares.
- Covering transactions involve purchases of shares either pursuant to the initial purchasers' option to purchase additional shares or in the open market after the distribution has been completed in order to cover short positions.
    - To close a naked short position, the initial purchasers must purchase shares in the open market after the distribution has been completed. A naked short position is more likely to be created if the initial purchasers are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

- To close a covered short position, the initial purchasers must purchase shares in the open market after the distribution has been completed or must exercise their option to purchase additional shares. In determining the source of shares to close the covered short position, the initial purchasers will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares by exercising their option to purchase additional shares.

- Stabilizing transactions involve bids to purchase shares so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the initial purchasers for their own accounts, may have the effect of preventing or retarding a decline in the market price of the shares. They may also cause the price of the shares to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The initial purchasers may conduct these transactions in the over-the-counter market or otherwise. If the initial purchasers commence any of these transactions, they may discontinue them at any time.

Lock-up Agreements

We, our principal officers, the members of our Board of Directors and our shareholders beneficially owning more than 5.0% of our capital stock and certain other principal shareholders have agreed, subject to certain exceptions, not to issue, offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any of our equity securities, or securities convertible into or exchangeable or exercisable for any of our equity securities, enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our equity securities, whether any of these transactions are to be settled by delivery of our equity securities or such other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc., until 90 days after the date of this offering memorandum.

Relationship Between the Company, the Initial Purchasers and the Mexican Underwriters

The initial purchasers and the Mexican underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. In addition to the commercial relationships arising from the global offering, from time to time, certain of the initial purchasers and the Mexican underwriters and their respective affiliates maintain commercial relationships with us and our affiliates and have provided, and may provide in the future, investment banking, financial advisory and other banking services to us and our affiliates, in the ordinary course of their business, for which they have received or may receive customary fees and commissions. In the ordinary course of their various business activities, the initial purchasers and the Mexican underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of ours (except when such investments or transactions involving securities of ours are expressly prohibited by law). In the case of derivatives transactions on behalf of clients outside of Mexico, in connection with our shares, the initial purchasers and the Mexican underwriters and their respective affiliates may also purchase some of the securities in the global offering as a hedge for such transactions, and these transactions may have an effect on the demand, price or other terms of the global offering. The initial purchasers and the Mexican underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. Except for the commissions and discounts to be received within the scope of the global offering, no other remuneration will be paid by us to the initial purchasers and the Mexican underwriters, or their respective affiliates.

See “Principal Shareholders” and “Business—Our Competitive Strengths—Our Shareholder Base and Corporate Governance Standards Distinguish Us From Other Participants in our Target Markets.

Selling Restrictions

Other than with respect to the public offering of the shares listed on the BMV, no action has been or will be taken in the United States, the United Kingdom or any country or jurisdiction by us, the Mexican underwriters or the initial purchasers that would permit a public offering of the shares, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Accordingly, the shares may not be offered or sold, directly or indirectly, and neither this offering memorandum nor any other offering material or advertisements in connection with the shares may be distributed, published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This offering memorandum does not constitute an offer to sell or a solicitation of an offer to purchase in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this offering memorandum comes are advised to inform themselves about and to observe any restrictions relating to the offering of the shares, the distribution of this offering memorandum and resale of the shares. See "Transfer Restrictions."

Australia

No prospectus, disclosure document, offering material or advertisement in relation to the shares has been lodged with the Australian Securities and Investments Commission or the Australian Stock Exchange Limited. Accordingly, a person may not (a) make, offer or invite applications for the issue, sale or purchase of shares within, to or from Australia (including an offer or invitation which is received by a person in Australia) or (b) distribute or publish this offering memorandum or any other prospectus, disclosure document, offering material or advertisement relating to the shares in Australia, unless (i) the minimum aggregate consideration payable by each offeree is the U.S. dollar equivalent of at least A$500,000 (disregarding moneys lent by the offeror or its associates) or the offer otherwise does not require disclosure to investors in accordance with Part 6D.2 of the Corporations Act 2001 (CWLTH) of Australia; and (ii) such action complies with all applicable laws and regulations.

Hong Kong

The shares may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may they be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Japan

No registration pursuant to Article 4, paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) (the "FIEL") has been made or will be made with respect to the solicitation of the application for the acquisition of the shares of common stock.

Accordingly, the shares of common stock have not been, directly or indirectly, offered or sold and will not be, directly or indirectly, offered or sold in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements, and otherwise in compliance with, the FIEL and the other applicable laws and regulations of Japan.

For Qualified Institutional Investors ("QII")

Please note that the solicitation for newly-issued or secondary securities (each as described in Paragraph 2, Article 4 of the FIEL) in relation to the shares of common stock constitutes either a "QII only private placement" or a "QII only secondary distribution" (each as described in Paragraph 1, Article 23-13 of the FIEL). Disclosure regarding any such solicitation, as is otherwise prescribed in Paragraph 1, Article 4 of the FIEL, has not been made in relation to the shares of common stock. The shares of common stock may only be transferred to QIIs.

For Non-QII Investors

Please note that the solicitation for newly-issued or secondary securities (each as described in Paragraph 2, Article 4 of the FIEL) in relation to the shares of common stock constitutes either a "small number private placement" or a "small number private secondary distribution" (each as is described in Paragraph 4, Article 23-13 of the FIEL). Disclosure regarding any such solicitation, as is otherwise prescribed in Paragraph 1, Article 4 of the FIEL, has not been made in relation to the shares of common stock. The shares of common stock may only be transferred en bloc without subdivision to a single investor.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of the shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and the 2010 PD Amending Directive to the extent implemented, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares to the public in that Relevant Member State at any time:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive or the 2010 PD Amending Directive if the relevant provision has been implemented;
- to fewer than (i) 100 natural or legal persons per Relevant Member State (other than qualified investors as defined in the Prospectus Directive or the 2010 PD Amending Directive if the relevant provision has been implemented) or (ii) if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons per relevant Member State (other than qualified investors as defined in the Prospectus Directive or the 2010 PD Amending Directive if the relevant provision has been implemented), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive or Article 3(2) of the 2010 PD Amending Directive to the extent implemented.

For the purposes of this provision, the expression an "offer of shares to the public," in relation to any shares in any Relevant Member State, means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression Prospectus Directive means Directive 2003/71/EC, and includes any relevant implementing measure in the Relevant Member State, and the expression 2010 PD Amending Directive means Directive 2010/73/EC.

United Kingdom

Each of the initial purchasers has agreed that this document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or the Order, or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling with Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such shares will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

France

No prospectus (including any amendment, supplement, or replacement thereto) has been prepared in connection with the offering of our shares that has been approved by the *Autorité des marchés financiers* or by the competent authority of another Relevant Member State and notified to the *Autorité des marchés financiers*. No shares have been offered or sold and will be offered or sold, directly or indirectly, to the public in France except to permitted investors ("Permitted Investors") consisting of persons licensed to provide the investment service of portfolio management for the account of third parties, qualified investors (*investisseurs qualifiés*) acting for their own account and/or corporate investors meeting one of the four criteria provided in article D. 341-1 of the French *Code moniétaire et financier* and belonging to a limited circle of investors (*cercle restreint d'investisseurs*) acting for their own account, with "qualified investors" and "limited circle of investors" having the meaning ascribed to them in Article L. 411-2, D. 411-1, D. 411-2, D. 734-1, D. 744-1, D. 754-1 and D. 764-1 of the French *Code moniétaire et financier*; none of this offering memorandum or any other materials related to the offer or information contained therein relating to the shares has been released, issued or distributed to the public in France except to Permitted Investors; and the direct or indirect resale to the public in France of any shares acquired by any Permitted Investors may be made only as provided by articles L. 411-1, L. 411-2, L. 412-1 and L. 621-8 to L. 621-8-3 of the French *Code moniétaire et financier* and applicable regulations thereunder.

Italy

The offering of our shares has not been cleared by the Italian Securities Exchange Commission (*Commissione Nazionale per le Societá e la Borsa*, or the CONSOB) pursuant to Italian securities legislation and, accordingly, our shares may not and will not be offered, sold or delivered, nor may or will copies of this offering memorandum or any other documents relating to our shares or the offer be distributed in Italy other than to professional investors (*operatori qualificati*), as defined in Article 31, paragraph 2 of CONSOB Regulation No. 11522 of July 1, 1998, as amended, or Regulation No. 11522, or in other circumstances where an exemption from the rules governing solicitations to the public at large applies in accordance with Article 100 of Legislative Decree No. 58 of February 24, 1998, as amended, or the Italian Financial Law, and Article 33 of CONSOB Regulation No. 11971 of May 14, 1999, as amended.

Any offer, sale or delivery of our shares or distribution of copies of this offering memorandum or any other document relating to our shares or the offer in Italy may and will be effected in accordance with all Italian securities, tax, exchange control, and other applicable laws and regulations, and in particular, will be:

- made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Legislative Decree No. 385 of September 1, 1993, as amended, or the Italian Banking Law, the Italian Financial Law, Regulation No. 11522, and any other applicable laws and regulations;
- in compliance with Article 129 of the Italian Banking Law and the implementing guidelines of the Bank of Italy; and
- in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Any investor purchasing our shares in the offer is solely responsible for ensuring that any offer or resale of shares it purchased in the offer occurs in compliance with applicable laws and regulations. This offering memorandum and the information contained herein are intended only for the use of its recipient and are not to be distributed to any third

party residing in or located in Italy for any reason. No person residing in or located in Italy other than the original recipients of this document may rely on it or its content.

In addition to the above (which shall continue to apply to the extent not inconsistent with the implementing measures of the Prospective Directive in Italy), after the implementation of the Prospectus Directive in Italy, the restrictions, warranties and representations set out under the heading "—Notice to Prospective Investors in the European Economic Area" above shall apply to Italy.

Switzerland

The shares may not and will not be publicly offered, distributed or re-distributed on a professional basis in or from Switzerland and neither this offering memorandum nor any other solicitation for investments in the shares may be communicated or distributed in Switzerland in any way that could constitute a public offering within the meaning of Articles 1156 or 652a of the Swiss Code of Obligations or of Article 2 of the Federal Act on Investment Funds of March 18, 1994. This offering memorandum may not be copied, reproduced, distributed or passed on to others without the initial purchasers' prior written consent. This offering memorandum is not a prospectus within the meaning of Articles 1156 and 652a of the Swiss Code of Obligations or a listing prospectus according to article 32 of the Listing Rules of the Swiss exchange and may not comply with the information standards required thereunder. We will not apply for a listing of our shares on any Swiss stock exchange or other Swiss regulated market and this offering memorandum may not comply with the information required under the relevant listing rules. The shares have not and will not be registered with the Swiss Federal Banking Commission and have not and will not be authorized under the Federal Act on Investment Funds of March 18, 1994. The investor protection afforded to acquirers of investment fund certificates by the Federal Act on Investment Funds of March 18, 1994, does not extend to acquirers of the shares.

Spain

Neither the shares nor this offering memorandum have been approved or registered in the administrative registries of the Spanish *Comisión Nacional del Mercado de Valores* (National Securities Exchange Commission). Accordingly, the shares may not be offered in Spain except in circumstances which do not constitute a public offer of securities in Spain within the meaning of articles 30bis of the Spanish Securities Market Law of 28 July 1988 (*Ley 24/1988, de 28 Julio, del Mercado de Valores*), as amended and restated, and supplemental rules enacted thereunder.

Germany

The shares will not be offered, sold or publicly promoted or advertised in the Federal Republic of Germany other than in compliance with the German Securities Prospectus Act (*Gesetz über die Erstellung, Billigung und Veröffentlichung des Prospekts, der beim öffentlicken Angebot von Wertpapieren oder bei der Zulassung von Wertpapieren zum Handel an einem organisierten Markt zu veröffenlichen ist—Wertpapierprospektgesetz*) as of 22 June 2005, effective as of 1 July 2005, as amended, or any other laws and regulations applicable in the Federal Republic of Germany governing the issue, offering and sale of securities. No selling prospectus (*Verkaufsprospeckt*) within the meaning of the German Securities Selling Prospectus Act has been or will be registered within the Financial Supervisory Authority of the Federal Republic of Germany or otherwise published in Germany.

The Netherlands

Our shares may not be offered, sold, transferred or delivered, in or from the Netherlands, as part of the distribution or as part of any reoffering, and neither this offering memorandum nor any other document in respect of the offering may be distributed in or from the Netherlands, other than to individuals or legal entities which trade or invest in securities in the conduct of their profession or trade (which includes banks, investment banks, securities firms, insurance companies, pension funds, other institutional investors and treasury departments and finance companies of large enterprises), in which case, it must be made clear upon making the offer and from any documents or advertisements in which a forthcoming offering of shares is publicly announced that the offer is exclusively made to said individuals or legal entities.

Brazil

The offer of securities described in this offering memorandum will not be carried out by any means that would constitute a public offering in Brazil under Law No. 6,385, of December 7, 1976, as amended, and under CVM Rule (*Instrução*) No. 400, of December 29, 2003, as amended. The offer and sale of the securities have not been and will not be registered with the *Comissão de Valores Mobiliários* in Brazil. Any representation to the contrary is untruthful and unlawful. Any public offering or distribution, as defined under Brazilian laws and regulations, of the interests in Brazil is not legal without such prior registration. Documents relating to the offering of the securities, as well as information contained therein, may not be supplied to the public in Brazil, as the offering of the securities is not a public offering of securities in Brazil, nor may they be used in connection with any offer for sale of the securities to the public in Brazil. This offering memorandum is addressed to you personally, upon your request and for your sole benefit, and is not to be transmitted to anyone else, to be relied upon by anyone else or for any other purpose either quoted or referred to in any other public or private document or to be filed with anyone without our prior, express and written consent.

Dubai

This offering memorandum relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("DFSA"). This offering memorandum is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this offering memorandum nor taken steps to verify the information set forth herein and has no responsibility for the offering memorandum. The shares to which this offering memorandum relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this offering memorandum you should consult an authorized financial advisor.

TRANSFER RESTRICTIONS

This offering is being made in accordance with Rule 144A and Regulation S under the Securities Act. The shares have not been and will not be registered in the United States under the Securities Act or any U.S. securities laws, nor may they be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except to (a) qualified institutional buyers (as defined under Rule 144A) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (b) non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act.

Each purchaser of the shares will be deemed, by accepting delivery of the shares, to represent, agree and acknowledge as applicable, as follows:

- the offering and sale of the shares have not been registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction except Mexico, and are intended to be exempt from registration under the Securities Act pursuant to Section 4 thereof;
- the purchaser is acquiring the shares for its own account (or, if it is acquiring the shares as a fiduciary or agent for one or more investor accounts, the purchaser has the full power and authority to make the representations, warranties and agreements herein on behalf of each such account);
- the purchaser is not acquiring the shares with a view to any distribution of the shares within the meaning of the Securities Act;
- the purchaser is (or, if it is acquiring the shares as a fiduciary or agent for one or more investor accounts, each such account is) (i) a "qualified institutional buyer," as such term is defined in Rule 144A or (ii) not a "U.S. person," as such term is defined in Regulation S, and is purchasing the shares in an offshore transaction pursuant to Regulation S;
- the purchaser has sufficient knowledge and experience in financial and business matters so as to be capable of independently evaluating the merits and risks of an investment in the shares, and the purchaser is able to bear the economic risk of the investment. The purchaser has made its own investment decision regarding the shares based on its own knowledge;
- the purchaser understands and agrees that neither the shares may be re-offered, resold, pledged or otherwise transferred except (1) (A) to a person who it reasonably believes is a qualified institutional buyer in a transaction exempt from registration under U.S. securities laws or (B) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S and, in either case, (2) in accordance with all applicable securities laws of the states of the United States;
- the purchaser (1) will not transfer the shares to any person or entity, unless such person or entity could itself truthfully make each of the foregoing representations, warranties and covenants and (2) will provide notice of the transfer restrictions applicable to the shares to any subsequent transferees;
- the purchaser has had the opportunity to ask questions of, and receive answers from us, concerning us, our business and financial condition and the shares to be acquired by the purchaser and other related matters. The purchaser further represents and warrants that we have made available to the purchaser or its agents all documents and information requested by the purchaser or on its behalf relating to an investment in the shares, including this offering memorandum. In evaluating the suitability of an investment in the shares, the purchaser has not relied and will not rely on any other representations or other information (whether oral or written) made by or on behalf of us (or any of our agents, including, without limitation, the Mexican underwriters and the initial purchasers) other than as contemplated by the two preceding sentences;
- the purchaser agrees not to deposit the shares into an unrestricted American or global depositary facility, for so long as the shares constitute restricted securities, as such term is defined in Rule 144 under the Securities Act; and
- the purchaser acknowledges that we, the initial purchasers, the Mexican underwriters and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

LEGAL MATTERS

The validity of the shares and certain other legal matters under Mexican law will be passed upon for us by Creel, Garcia-Cuéllar, Aiza y Enríquez, S.C., our Mexican counsel, and for the initial purchasers by Raz Guzmán, S.C., Mexican counsel to the initial purchasers.

Certain legal matters under U.S. federal and New York state law will be passed upon for us by Cleary Gottlieb Steen & Hamilton LLP, New York, New York, our U.S. counsel, and for the initial purchasers by Paul Hastings LLP, New York, New York, U.S. counsel to the initial purchasers.

INDEPENDENT AUDITORS

The consolidated financial statements for Hoteles City Express, S.A.B. de C.V. and its subsidiaries as of and for the years ended December 31, 2013 and 2012, and for Hoteles City Express, S.A.P.I. de C.V. (which was the Issuer's corporate form prior to its June 2013 initial public offering) and its subsidiaries as of December 31, 2012, 2011 and 2010 and January 1, 2010 and for the years ended December 31, 2012, 2011 and 2010, which are included elsewhere in this offering memorandum, have each been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C. (Member of Deloitte and Touche Tohmatsu Limited), independent auditors, as stated in their corresponding reports appearing herein.

Our independent auditors were appointed by our Board of Directors based on their experience and quality of service.

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Hoteles City Express, S. A. B. de C. V. and Subsidiaries

Unaudited Condensed Consolidated Interim Statements of Financial Position

As of June 30, 2014 and December 31, 2013
(In Mexican pesos)

Assets	**Note**	**June 30, 2014**	**December 31, 2013**
Current assets:			
Cash, cash equivalents and restricted cash	**5**	$ 1,328,503,361	$ 1,687,289,890
Trade receivables, net	**6**	79,416,820	63,183,413
Recoverable taxes – mainly value-added tax		217,122,282	166,769,957
Prepaid expenses	**7**	46,820,353	33,588,176
Assets available for sale		8,486,848	-
Total current assets		1,680,349,664	1,950,831,436
Non-current assets:			
Property, equipment and leasehold improvements, net	**9**	5,809,425,658	5,449,937,632
Guarantee deposits		2,897,808	2,897,808
Other assets	**10**	14,731,659	12,565,063
Derivative financial instruments		17,498	102,357
Total non-current assets		5,827,072,623	5,465,502,860
Total assets		$ 7,507,422,287	$ 7,416,334,296
Liabilities and equity			
Current liabilities:			
Bank loans and current portion of long-term debt	**11**	$ 118,775,219	$ 107,857,783
Trade accounts payable		60,520,106	44,693,159
Other taxes, accrued expenses and other liabilities		125,801,820	84,689,678
Income tax and business flat tax		7,999,043	4,234,077
Direct employee benefits		1,143,535	1,097,471
Total current liabilities		314,239,723	242,572,168
Non-current liabilities:			
Long term debt	**11**	1,941,259,744	1,966,589,611
Derivative financial instruments	**8**	20,752,224	10,720,706
Deferred revenue		19,279,508	15,876,186
Employee benefits		1,299,248	1,140,182
Deferred income tax	**12**	150,342,332	153,400,074
Total non-current liabilities		2,132,933,056	2,147,726,759
Total liabilities		2,447,172,779	2,390,298,927
Equity			
Stockholders' equity and reserves:			
Equity attributable to owners of the Entity:			
Issued capital	**14**	3,688,393,799	3,642,550,334
Additional paid-in capital		-	52,459,520
Retained earnings		693,716,851	645,826,137
Accumulated other comprehensive income		(27,261,496)	(18,764,943)
Total equity attributable to owners of the Entity		4,354,849,154	4,322,071,048
Non-controlling interests		705,400,354	703,964,321
Total equity		5,060,249,508	5,026,035,369
Total liabilities and equity		$ 7,507,422,287	$ 7,416,334,296

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Hoteles City Express, S. A. B. de C. V. and Subsidiaries

Unaudited Condensed Consolidated Interim Statements of Income and Other Comprehensive Income

For the six and three months ended June 30, 2014 and 2013
(In Mexican pesos)

	Note	For the six months ended		For the three months ended	
		June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenues from hotel operation		$ 615,424,950	$ 487,553,473	$ 320,277,638	$ 254,735,050
Revenues from hotel management		34,013,769	21,902,038	18,009,943	14,319,494
Total		649,438,719	509,455,511	338,287,581	269,054,544
Hotel operating costs and expenses		335,764,094	272,976,593	173,860,315	145,249,604
Selling and administrative expenses		102,741,708	81,155,820	53,004,457	42,781,561
Depreciation		101,377,081	75,666,267	51,255,906	38,732,415
Cost and expenses		539,882,883	429,798,680	278,120,678	226,763,580
Expenses associated with opening of new hotels		(6,705,954)	(5,812,652)	(2,865,433)	(2,236,424)
Other income (expenses)		-	1,313,676	-	(442,877)
Consolidated operating income		102,849,882	75,157,855	57,301,470	39,611,663
Finance costs		(57,916,401)	(49,968,450)	(21,870,388)	(26,752,005)
Finance income		21,192,126	10,325,557	4,831,575	7,478,325
Exchange result, net		(5,675,798)	(744,106)	(1,795,555)	1,472,421
Valuation effects of derivative financial instruments		639,814	1,273,801	1,300,575	803,183
Other finance costs		-	(722,072)	-	(722,072)
		(41,760,259)	(39,835,270)	(17,533,793)	(17,720,148)
Income before tax		61,089,623	35,322,585	39,767,677	21,891,515
Income tax expense	**12**	12,217,924	7,064,517	7,540,463	4,378,303
Consolidated net income		48,871,699	28,258,068	32,227,214	17,513,212
Other comprehensive (loss) income:					
Items that may be reclassified subsequently to net income:					
Exchange differences on translating foreign operations		(1,474,491)	(9,084,552)	14,766,325	1,535,148
Derivative financial instruments		(10,031,518)	-	(8,654,611)	-

(Continue)

	Note	For the six months ended		For the three months ended	
		June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Income taxes		3,009,456		2,596,383	
Items that may not be reclassified subsequently to net income:					
Net actuarial (gain) loss on emloyee benefits		-	(109,445)	-	(109,445)
Total other comprenhensive loss, net of income taxes		(8,496,553)	(9,193,997)	8,708,097	1,425,703
Total consolidated comprehensive income for the preriod		$ 40,375,146	$ 19,064,071	$ 40,935,311	$ 18,938,915
Consolidated income for the period attributable to:					
Owners of the Entity		$ 45,829,366	$ 28,332,030	$ 32,003,259	$ 17,656,898
Non-controlling interests		3,042,333	(73,962)	223,955	(143,686)
		$ 48,871,699	$ 28,258,068	$ 32,227,214	$ 17,513,212
Total consolidated comprehensive income for the period attributable to:					
Owners of the Entity		$ 37,332,813	$ 22,084,557	$ 40,711,356	$ 18,787,828
Non-controlling interests		3,042,333	(3,020,486)	223,955	151,087
		$ 40,375,146	$ 19,064,071	$ 40,935,311	$ 18,938,915
Basic and diluted net income per share		$ 0.1666	$ 0.1462	$ 0.1163	$ 0.0911

(Concluded)

See accompanying notes to unaudited condensed consolidated interim financial statements.

Hoteles City Express, S. A. B. de C. V. and Subsidiaries

Unaudited Condensed Consolidated Interim Statements of Changes in Stockholders' Equity

For the six months ended June 30, 2014 and 2013
(In Mexican pesos)

					Other Comprehensive (Loss) Income					
	Note	Capital stock	Additional paid-in capital	Retained earnings	Actuarial gain (loss)	Exchange differences on translating foreign operations	Valuation effects on financial derivative instruments	Equity attributable to owners of the parent	Non-controlling interests	Total
Balance at January 1, 2013		$ 716,942,825	$ 1,074,219,173	$ 651,702,837	$ 80,351	$ 1,106,867	$ -	$ 2,444,052,053	$ 812,909,243	$ 3,256,961,296
Increase in capital		1,219,359,315	684,593,307	-	-	-	-	1,903,952,622	-	1,903,952,622
Capitalization of additional paid-in capital		1,074,219,173	(1,074,219,173)	-	-	-	-	-	-	-
Acquisitions of non-controlling interests		-	-	(78,451,956)	-	(6,389,498)	-	(84,841,454)	(313,087,882)	(397,929,336)
Contributions of non-controlling interests		-	-	-	-	-	-	-	181,840,540	181,840,540
Income and other comprehensive income for the period		-	-	28,332,030	(108,059)	(6,139,414)	-	22,084,557	(3,020,486)	19,064,071
Balance at June 30, 2013		$ 3,010,521,313	$ 684,593,307	$ 601,582,911	$ (27,708)	$ (11,422,045)	$ -	$ 4,285,247,778	$ 678,641,415	$ 4,963,889,193
Balance at January 1, 2014		$ 3,642,550,334	$ 52,459,520	$ 645,826,137	$ 556,027	$ (11,816,476)	$ (7,504,494)	$ 4,322,071,048	$ 703,964,321	$ 5,026,035,369
Capitalization of additional paid-in capital		52,459,520	(52,459,520)	-	-	-	-	-	-	-
Contributions of non-controlling interests	15	-	-	-	-	-	-	-	27,955,048	27,955,048
Acquisitions of non-controlling interests, net	2, 15	-	-	2,061,348	-	-	-	2,061,348	(29,561,348)	(27,500,000)
Repurchase of shares		(6,616,055)	-	-	-	-	-	(6,616,055)	-	(6,616,055)
Income and other comprehensive income for the period		-	-	45,829,366	-	(1,474,491)	(7,022,062)	37,332,813	3,042,333	40,375,146
Balance at June 30, 2014		$ 3,688,393,799	$ -	$ 693,716,851	$ 556,027	$ (13,290,967)	$ (14,526,556)	$ 4,354,849,154	$ 705,400,354	$ 5,060,249,508

See accompanying notes to unaudited condensed consolidated interim financial statements.

Hoteles City Express, S. A. B. de C. V. and Subsidiaries

Unaudited Condensed Consolidated Interim Statements of Cash Flows

For the six months ended June 30, 2014 and 2013
(In Mexican pesos)

	For the six months ended	
	June 30, 2014	**June 30, 2013**
Cash flows from operating activities		
Income before tax	$ 61,089,623	$ 35,322,585
Adjustments for:		
Depreciation	101,377,081	75,666,267
Loss on disposal of equipment	623,556	4,627,817
Finance income	(21,192,126)	(10,325,557)
Finance cost	57,916,401	49,968,450
Unrealized foreign currency fluctuations	1,324,947	(1,273,801)
Loss on valuation of financial instruments	639,814	6,198,263
	201,779,296	160,184,024
Movements in working capital		
Trade receivables and recoverable taxes, net	(66,585,732)	(23,893,331)
Prepaid expenses	(13,232,177)	(2,056,491)
Trade and other payables	15,826,947	4,991,002
Other taxes, accrued expenses and other liabilities	38,680,944	(11,118,002)
Employee benefits	205,130	(4,882,457)
Income tax and business flat tax paid	(10,773,353)	(6,990,144)
Net cash flows from operating activities	165,901,055	116,234,601
Investing activities:		
Payments for property, equipment and leasehold improvements	(480,915,284)	(496,217,221)
Acquisitions of subsidiaries	-	(66,646,785)
Other assets	(2,166,596)	19,852,294
Finance income received	21,192,126	10,325,557
Net cash flow used in investing activities	(461,889,754)	(532,686,155)
Financing activities:		
Increase in share capital and share premium subscription	-	1,607,365,179
Repurchase of shares	(6,616,055)	
Proceeds from contributions received from non-controlling interests	27,955,048	181,840,540
Finance costs paid	(62,584,448)	(43,930,410)
Proceeds from short and long-term borrowings	265,000,000	237,873,347
Repayment of borrowings	(269,992,148)	(99,964,800)
Payments to acquire non-controlling interests	(27,500,000)	(105,471,999)
Net cash flows (used in) provided by financing activities	(73,737,603)	1,777,711,857
Net (decrease) increase in cash, cash equivalents and restricted cash	(369,726,302)	1,361,260,303
Cash, cash equivalents and restricted cash at the beginning of the period	1,687,289,890	555,008,607
Effects of exchange rate changes on the balance of cash held in foreign currencies and effects of balances of foreign operations	10,939,773	12,887,740
Cash, cash equivalents and restricted cash at the end of the period	$ 1,328,503,361	$ 1,929,156,650

See accompanying notes to unaudited condensed consolidated interim financial statements.

Notes to the Unaudited Condensed Consolidated Interim Financial statements

For the six and three months ended June 30, 2014 and 2013
(In Mexican pesos)

1. General information and basis of presentation

General information

Hoteles City Express, S. A. B. de C. V. and Subsidiaries (the "Entity") are primarily engaged in the ownership, operation and management of hotels using the brand names Hoteles City express, City Suites and City junior. Their activities include structuring hotel projects, overseeing the development of hotels and real estate, management, marketing, franchising, maintenance, organization of properties in the hotel industry, as well as providing hotel construction and technical, administrative and /or specialized services either directly or through third parties.

At June 30, 2014 and 2013 rooms operated, under the trade names of the Entity, amounted to 9,778 and 8,360, for managed hotels and hotels operated as a franchise, respectively.

The business address is Juan Salvador Agraz #69, Santa Fe, Cuajimalpa de Morelos, México, Distrito Federal, 05348.

Basis of presentation

Explanation for translation into English - The accompanying unaudited condensed consolidated interim financial statements have been translated from Spanish into English for use outside of Mexico. Certain accounting practices applied by the Entity in the accompanying unaudited condensed consolidated interim financial statements may not conform with accounting principles generally accepted in the country of use.

Basis of preparation - The accompanying unaudited condensed consolidated interim financial statements as of June 30, 2014 and for the three and six months ended June 30, 2014 and June 30, 2013 have not been audited. They have been prepared in accordance with International Accounting Standard (IAS or IFRS when referring to the comprehensive set of International Financial Reporting Standards) 34, *Interim Financial Reporting*. The Entity has included all adjustments (consisting mainly of ordinary, recurring adjustments) considered necessary for the fair presentation of the accompanying unaudited condensed consolidated interim financial statements. The results for the periods presented are not necessarily indicative of results for the full year.

These unaudited condensed consolidated interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Entity's financial statements as of and for the year ended December 31, 2013.

The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

Seasonality

Much of the hotel industry is inherently seasonal in nature. However, the Entity's primary focus on the business traveler and its predominantly urban or suburban geographic footprint means that most of its business is not affected by seasonality. The Entity estimates that less than 10% of its business relies on tourist travel. Instead, its business more closely tracks Mexican GDP (Gross domestic product) and macroeconomic conditions. Despite this, the occupancy levels of the hotels of the Entity tend to fluctuate negatively from mid-December to mid-January.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Hoteles City Express, S. A. B. de C. V. and the entities it controls (its subsidiaries). Control is achieved where the Entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The shareholding in the share capital of those entities is as follows:

Entity	Shareholding percentage as of June 30, 2014 and December 31, 2013	Activity
Inmobiliaria Hotelera City Express, S.A. de C.V.	100	Holding of entities located in Mexico.
Operadora de Hoteles City Express, S.A. de C.V.	100	Management, development, franchise and marketing services provider for hotel properties.
Operadora de Hoteles City Internacional, S.A. de C.V.	100	Management, development, franchise and marketing services provider for hotel properties, mainly located outside of Mexico.
Servicios Comerciales y Promoción de Hoteles, S.A. de C.V.	100	Corporate services provider located in Mexico
Promotora Hotelera City Express, S.A. de C.V.	100	Holding company of subsidiaries located outside of Mexico, with investment in Sac Be Ventures, LLC 100% and Hoteles City Express Chile, L.T.D.A. 100% (Holding entity of Inversiones HCP, S.A. at 50% ownership).
City Express Administración Corporativa, S. A. de C. V.	100	Provides services to hoteling development.

All intra-group transactions, balances, income and expenses are eliminated in full in consolidation.
The results of subsidiaries acquired or disposed during the period are included in the unaudited condensed consolidated statements of income and other comprehensive income from the date of acquisition or up to the date of sale, as applicable.

Changes in the Entity's ownership interests in existing subsidiaries

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

2. Significant events in the six months ended June 30, 2014

On April 24, 2014, the Entity acquired the remaining 50% of the shares of Desarrolladora Hotelera del Bajio, S. A. de C. V. for $27,500,000. The difference between the carrying value of the non-controlling interest and the consideration paid of $2,061,348 was recorded in retained earnings.

3. Application of new and revised IFRS

a. New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services.
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Subsequent amendments to IFRS 12 and IAS 27 that introduce new disclosures and requirements for investment entities.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement".

These amendments did not have an impact on the accompanying unaudited condensed consolidated interim financial statements.

b. New and revised IFRSs that have been issued but are not yet effective:

The Entity has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[2]

[1] Effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

[2] Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition

4. Significant accounting policies

The Entity has applied the same accounting policies in the preparation of these unaudited condensed consolidated interim financial statements as those applied in the consolidated financial statements for the year ended December 31, 2013, except as otherwise disclosed in Note 3.

5. Cash, cash equivalents and restricted cash

	June 30, 2014	December 31, 2013
Cash and bank deposits	$ 188,595,872	$ 354,570,030
Cash equivalents - Investments available on demand	1,110,210,660	1,303,804,862
Restricted cash (1)	29,696,829	28,914,998
	$ 1,328,503,361	$ 1,687,289,890

(1) Restricted cash represents funds held in a trust, as required by the Entity's loan agreements, in amounts equal to the principal and interest payments as established in these agreements. The payments are generally related to the following month or quarter, accordingly, restricted cash is classified as current.

6. Trade receivables

	June 30, 2014	December 31, 2013
Customers	$ 73,999,865	$ 60,157,306
Allowance for doubtful accounts	(372,320)	(362,763)
Sundry debtors	5,789,275	3,388,870
	$ 79,416,820	$ 63,183,413

7. Prepaid expenses

	June 30, 2014	December 31, 2013
Insurance paid in advance	$ 2,977,229	$ 5,812,587
Prepaid rentals	1,547,966	1,542,411
Supplier's advances	9,005522	9,803,876
Prepaid services	29,247,372	12,776,960
Prepaid expenses	4,042,264	3,652,342
	$ 46,820,353	$ 33,588,176

8. Derivative financial instruments

In order to manage interest rate risk with respect to loans, certain subsidiaries have entered into interest rate swaps and interest rate caps for which the corresponding subsidiary will pay interest based on fixed interest rates and will receive amounts calculated based on the variable interest rates.

	Beginning date	Ending date	Notional	June 30, 2014 Fair value	December 30, 2013 Fair value
Swap TIIE (28 days) 5.24% HSBC	15-January-2013	15-January-2017	758,196,458	$ 20,752,224	$ 10,720,706

9. Property, equipment and leasehold improvements

	December 31, 2013	Additions	Disposals	Construction in progress	Effects of foreign exchange rates	June 30, 2014
Land	$ 1,532,127,506	$ 151,273,784	$ (8,486,848)	$ -	$ (4,561,204)	$ 1,670,353,238
Buildings	3,402,852,164	16,735,838	-	137,512,850	(4,604,214)	3,552,496,638
Operating equipment	569,096,318	12,831,364	(8,812,463)	32,343,613	(814,010)	604,644,822
Minor equipment	35,012,763	198,597	(434,214)	-	-	34,777,146
Computers	70,963,566	6,215,601	(4,234,514)	3,375,364	(219,261)	76,100,756
Furniture and equipment	48,773,118	(346,382)	-	430,787	-	48,857,523
Leasehold improvements	8,044,901	-	-	-	-	8,044,901
Vehicles	29,241,161	3,662,413	(3,618,723)	1,101,466	(72,281)	30,314,036
Remodeling and replacements	50,196,816	15,269,505	(3,618,939)	2,075,733	(29,046)	63,894,069
Construction in-progress	186,217,895	275,074,564	-	(176,839,813)	(639,757)	283,812,889
Total	5,932,526,208	480,915,284	(29,205,701)	-	(10,939,773)	6,373,296,018
Accumulated depreciation:						
Buildings	(100,135,279)	(33,406,728)	-	-	-	(133,542,007)
Operating equipment	(280,139,958)	(54,274,732)	12,340,080	-	-	(322,074,610)
Minor equipment	(23,619,382)	(2,688,047)	492,153	-	-	(25,815,276)
Computers	(35,274,276)	(8,276,991)	4,369,128	-	-	(39,182,139)
Furniture and equipment	(25,197,848)	(715,705)	284,872	-	-	(25,628,681)
Leasehold improvements	(4,838,924)	-	-	-	-	(4,838,924)
Vehicles	(13,382,909)	(2,014,878)	2,609,064	-	-	(12,788,723)
Accumulated depreciation	(482,588,576)	(101,377,081)	20,095,297	-	-	(563,870,360)
Total	$ 5,449,937,632	$ 379,538,203	$ (9,110,404)	$ -	$ (10,939,773)	$ 5,809,425,658

i) Assets pledged as collateral

Certain of the Entity's land and buildings are pledged as collateral on its bank loans (see Note 11). The Entity is not authorized to grant such land as collateral for other loans or sell such land to another entity.

ii) Cost of capitalized interest

Capitalized interest at June 30, 2014 and December 31, 2013 are $0 and $39,965,262, respectively.

10. Other assets

	June 30, 2014	December 31, 2013
Advance payment for purchase of land	$ 12,200,000	$ 12,200,000
Sundry debtors	2,531,659	365,063
	$ 14,731,659	$ 12,565,063

11. Bank loans

At June 30, 2014 and December 31, 2013, the long-term bank loans are summarized as follows:

Collateralized loans (hotels as collateral), carried at amortized cost:	June 30, 2014	December 31, 2013
Line of credit with HSBC for $830,001,812, at TIIE (28 days) plus 1.90%, maturing in 2019 (ii).	$ 689,462,372	$ 712,360,110
Line of credit with BANAMEX for up to $500,000,000, at TIIE (28 days) plus 2.00%, maturing in 2023.(ii)	165,483,559	133,769,297
Banorte loan for $20,000,000, at TIIE (28 days) plus 2.85%, maturing in 2014 (i).	1,647,032	3,261,273
HSBC loan for $20,423,000, at TIIE (28 days) plus 2.60%, maturing in 2015 (i).	5,475,262	6,979,414
BANCOMEXT loan for $22,027,560, at TIIE (28 days) plus 2.75%, maturing in 2016 (i).	6,342,859	7,741,239
Santander loan for $27,000,000, at TIIE (28 days) plus 2.75%, maturing in 2017 (i).	9,117,330	10,794,082
Loan with MetLife for $85,000,000, at a fixed rate of 8.88%, maturing in 2019 (ii).	81,028,820	81,297,181
BBVA loan for $25,380,000, at TIIE (28 days) plus 1.95%, maturing in 2017 (iii).	9,978,619	11,588,597
BBVA loan for $28,762,000, at TIIE (28 days) plus 2%, maturing in 2020 (iii).	18,453,310	19,522,730
Banorte loan for $29,300,000, at TIIE (28 days) plus 1.96%, maturing in 2018 (i).	14,648,715	15,599,408
Scotiabank loan for $33,000,000, at TIIE (28 days) plus 2.20%, maturing in 2020 (i).	31,416,136	32,480,024
BANCOMEXT loan up to $ 28,601,446, at TIIE (28 days) plus 3.25%, maturing in 2020 (i).	25,579,239	26,064,132
Santander loan with for $26,039,905, at TIIE (28 days) plus 4.00%, maturing in 2018 (vi).	-	17,959,968
Scotiabank loan for $30,000,000, at TIIE (28 days) plus 2.2%, maturing in 2015 (i).	19,567,089	22,784,877
BANCOMEXT loan for $35,331,922, at TIIE (28 days) plus 2.25%, maturing in 2021 (i).	23,675,560	23,171,923
BANCOMEXT loan for $42,405,101, at TIIE (28 days) plus 3.25% maturing in 2021 (i).	38,227,066	38,220,499
BANCOMEXT loan for $39,305,629, at TIIE (28 days) plus 3.25%, maturing in 2021 (i).	34,944,949	36,488,106
BANCOMEXT loan for $30,000,000, at TIIE (28 days) plus 2.25%, maturing in 2021 (i).	27,252,517	28,272,926
Scotiabank loan for $28,880,000, at TIIE (28 days) plus 2.2%, maturing in 2016 (i).	22,873,814	24,037,135
Loan from International Finance Corporation for $191,000,000, at a net rate equivalent to TIIE (28 days) plus 2.665% maturing in 2022 (i).	179,468,954	186,323,010
BANCOMEXT loan for $35,133,148, at TIIE (28 days) plus 2.33%, maturing in 2022 (i).	33,939,182	34,035,225
Line of credit with International Finance Corporation and Deutsche Investitions-und Entwicklungsgesellshaft mbH for up to USD$30,000,000, at LIBOR (180 days) plus 4.70%, maturing in 2023 (iii).	58,133,714	58,228,446
BANCOMEXT loan for $35,925,492, at TIIE (28 days) plus 2.33%, maturing in 2022 (i).	35,134,972	35,045,353
Corp Banca loan for 1,070,364,637 in Chilean Pesos, at a fixed rate of 8.05%, maturing in 2014 (iv).	25,244,448	26,725,708

Collateralized loans (hotels as collateral), carried at amortized cost:	June 30, 2014	December 31, 2013
Corp Banca loan for 950,357,926 in Chilean Pesos, at a fixed rate of 5.20%, maturing in 2014 (iv).	23,574,867	24,216,334
Corp Banca loan for 529,311,540 in Chilean Pesos, at a fixed rate of 5.20%, maturing in 2014 (iv).	13,130,263	13,487,534
Corp Banca loan for 734,064,826 in Chilean Pesos, at a fixed rate of 5.20%, maturing in 2015 (iv).	18,205,251	18,700,612
Corp Banca loan for UF 17,126, at a fixed rate of 5.20%, maturing in 2015 (iv).	9,703,498	9,967,528
Line of credit with Actinver for up to $150,000,000 at a rate TIIE (91días) plus 2.50% and TIIE (91días) plus 3.00% maturing in 2015. (ii)	120,000,000	99,516,278
BANCOMEXT loan for $35,534,000, at TIIE (91 days) plus 2.25%, maturing in 2023 (i).	34,874,462	34,901,167
BANCOMEXT loan for $42,495,000, at TIIE (91 days) plus 2.25%, maturing in 2023 (i).	41,848,360	41,799,234
BANCOMEXT loan for $28,340,316, at TIIE (91 days) plus 2.25%, maturing in 2023 (i).	27,547,539	26,805,253
BANCOMEXT loan for $27,353,087, at TIIE (91 days) plus 2.25%, maturing in 2023 (i).	27,309,335	27,024,026
BANCOMEXT loan for $30,689,500, at TIIE (91 days) plus 2.25%, maturing in 2023 (i).	30,008,087	30,180,083
BANCOMEXT loan for $30,954,000, at TIIE (91 days) plus 2.25%, maturing in 2023 (i).	30,247,157	30,262,870
BANCOMEXT loan for $32,625,212, at TIIE (91 days) plus 2.25%, maturing in 2023 (i).	32,057,251	32,085,980
Loan with International Finance Corporation and Deutsche Investitions fund Entwicklungsgesellshaft mbH for up to USD $6,300,000, at LIBOR (180 days) + 4.7%, maturing in 2023.(i)	81,901,260	82,316,430
Interest payable	12,532,115	10,433,402
Total	2,060,034,963	2,074,447,394
Less: current portion of long-term debt	(118,775,219)	(107,857,783)
Long-term debt	$ 1,941,259,744	$ 1,966,589,611
TIIE (28 days) at period end	3.3100%	3.7950%
TIIE (91 days) at period end	3.3200%	3.7975%

(i) Quarterly amortization
(ii) Monthly amortization
(iii) Bi-annual amortization
(iv) Principal due at the term of the loan
(v) LIBOR = London Interbank Offered Rate
(vi) The debt was settled in advance during 2014

Each bank credit agreement provides for certain restrictions, which must be met individually by the subsidiary company that has signed the bank loan. Such restrictions include limiting or generally prohibiting the issuance of interest-bearing liabilities, prohibiting the merger or spin-off with other affiliates (even though they may form part of the same socioeconomic group), prohibiting the granting of loans, collateral, or other fiduciary activities with third parties or its subsidiaries, reducing its share capital, paying dividends, increasing capital in subsidiaries, maintaining minimum amounts of equity and meeting tax obligations.

In addition, each subsidiary that issues debt is generally required to maintain certain financial ratios at specified levels, during the term of the loans. The most significant ratios include: (i) operating income before taxes plus depreciation plus interest expense, divided by interest expense, and (ii) financial leverage, defined as the division of financial liability between equity, among others.

12. Income taxes

The Entity is subject to income tax (ISR) and was subject to the business flat tax (IETU) until December 31, 2013.

ISR – The rate was 30% in 2013 and as a result of the new 2014 ISR law (2014 Tax Law), the rate will continue at 30% in 2014 and thereafter.

IETU – IETU was eliminated as of 2014; therefore, up to December 31, 2013, this tax was incurred both on revenues and deductions and certain tax credits based on cash flows from each year. The respective tax rate was 17.5%. As a result of its elimination, the related deferred income taxes were eliminated during 2013.

Income taxes for the six and the three months ended June 30, are as follows:

	For the six months ended		For the three months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
ISR:				
Current tax	$ 14,538,319	$ 7,352,524	$ 10,113,456	$ 4,488,588
Deferred tax	(2,320,395)	(4,630,382)	(2,572,993)	(1,800,792)
	12,217,924	2,722,142	7,540,463	2,687,796
IETU:				
Current tax	-	4,342,375	-	1,690,507
	$ 12,217,924	$ 7,064,517	$ 7,540,463	$ 4,378,303

13. Fair value of financial instruments carried at amortized cost

a. ***Fair value measurements of financial instruments***

This note provides information about the Company determines the fair values of financial liabilities

1. Fair value of financial liabilities of the entity that are measured at fair value on a recurring basis

Some of the financial liabilities of the Entity are valued at fair value at the end of each year. The following table provides information about the fair values of financial liabilities (including the valuation technique and inputs used).

Financial liabilities	June 30, 2014	December 31, 2013	Fair value hierarchy	Technique (s) valuation and main input data	Significant unobservable inputs	Relationship of n observable input to the fair value
Swaps interest rate	Liabilities (designated as hedges) $20,752,224	Liabilities (designated as hedges) $10,720,706	Level 2	Discounted cash flows. The future cash flows are estimated based on the forward interest rates (from the yield curves observable at the end of the reporting period) and contractual interest rates, discounted at a rate that reflects the credit risk of counterparties.	N/A	N/A

Except as detailed in the following table, Management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

	June 30, 2014		December 31, 2013	
	Carrying amount	**Fair Value**	**Carrying amount**	**Fair Value**
Banking loans and interest	$ 2,060,034,963	$ 2,065,167,565	$2,074,447,394	$1,968,345,945

- ***Valuation techniques and assumptions applied for the purposes of measuring fair value***

  The fair values of financial assets and financial liabilities (derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis. A discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. Interest rate caps are valued using the Black Scholes formula, which uses variables including the spot value of the underlying asset, maturity date, volatility, price, domestic interest rate and foreign interest rate. Both valuations are Level 2.

- ***Fair value measurements recognized in the consolidated statement of financial position***

  Fair value of financial assets and financial liabilities is valuated subsequent to the beginning recognition at fair value and are based on the following hierarchy:

  - Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities, in this category are cash, cash equivalents and restricted cash.

  - Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

  - Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs), in this category are the derivative financial instruments assets and liabilities.

14. Capital

Common stock at par value as of June 30, 2014 and December 31, 2013 is as follows:

Series	Number of shares
Series A	300
Series B	275,111,159
Total	275,111,459

Capital stock is $3,688,393,799 and consists of common shares, without par value, Series " A" shares corresponding to fixed capital without right of withdrawal and Series “B” shares corresponding to variable capital, which such subscription is unlimited.

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

At the Ordinary Annual Shareholders meeting held on April 23, 2014, the shareholders approved an increase in the variable capital of the Entity for $52,459,520 without issuing new shares, through the capitalization of the additional paid in capital generated as a result of the initial public offering of the shares of the Entity on June 13, 2013. Such change in equity will be proportionally applied to shareholder accounts of the Entity as of April 23, 2014.

On May 15, 2013, certain of the Entity officers executed share subscription agreements to acquire the Entity shares. Pursuant to such share subscription agreements, these officers have subscribed to and partially paid for an aggregate total of 6,517,092 of the Entity shares, which have been deposited in a management trust. The obligation to pay the remaining portion of the subscription price is contingent upon the Entity meeting certain performance metrics each year for a four year period following the date of the global offering. These shares may be redeemed by the Entity at any time for an amount equal to the subscription price that would have been paid up until the time of redemption, even if the performance metrics established in the relevant share subscription agreements have not been met. As long as the shares have not been paid in full, they will be voted in the same manner as the majority of the other shares of the Entity, and once the subscriptions are paid in full, they will be released from such voting trust and can be freely voted. The relevant officers have entered into loan agreements to cover payments related to the subscription and pledged the relevant shares as security for payment. The shares are to be released from the pledge upon full payment of the amounts due under the relevant loan agreements.

At the General Ordinary Shareholders Meeting held on December 5, 2013, the shareholders approved the proposed policy for the repurchase of shares of the Entity, in accordance with Clause IV of Article 56 of the Mexican Securities Market Law. A maximum amount for the reserve for the repurchase of shares was established at $120,000,000. As of June 30, 2014, funds of $6,616,065 were used to repurchase shares.

15. Non-controlling interest

	June 30, 2104	December 31, 2013
Balance at beginning of the period	$ 703,964,321	$ 812,909,243
Participation in other comprehensive income	3,042,333	8,218,746
Acquisition of non-controlling interest	(29,561,348)	(313,087,882)
Contributions from non-controlling interest	27,955,048	203,906,214
Equity reduction and dividends paid	-	(7,982,000)
Balance at end of period	$ 705,400,354	$ 703,964,321

16. Earnings per share

The Entity does not have any potentially dilutive instruments, for which reason basic and diluted earnings per share are equal.

	For the six months ended		For the three months ended	
	June 30, 2014 Pesos per share	June 30, 2013 Pesos per share	June 30, 2014 Pesos per share	June 30, 2013 Pesos per share
Basic and diluted earnings per share	$ 0.1666	$ 0.1462	$ 0.1163	$ 0.0911

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	For the six months ended		For the three months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Income for the period attributable to owners of the Entity	$ 45,829,366	$ 28,332,030	$ 32,003,259	$ 17,656,898
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	275,111,459	193,740,819	275,111,459	193,740,819

17. Transactions and balances with related parties

Balances and transactions between the Entity and its subsidiaries, which are related parties of the Entity, have been eliminated in consolidation and are not disclosed in this note.

a. ***Loans and interest from related parties***

	June 30, 2014	December 31, 2013
Loans from International Finance Corporation	$ 257,291,185	$ 263,403,496

Loans are at comparable rates with the average commercial interest rate. The loans are guaranteed by certain of the Entity's land and properties.

18. Operating leases – the Entity as a lessee

The Entity has entered into property lease agreements, considered as operating leases, with fixed monthly payments based on the total investment in the project, adjustable annually for inflation, in certain instances, with payments based on the total gross revenue earned from the property leases. The incomes referred are denominated in domestic currency. Contracts are valid for 15 years from the date of opening, which can be extended by a single term of five years.

19. Segments

The operating segment information is presented based on the manner in which the Chief Executive Officer and the Board of Directors assess economic performance and operating results of the Entity as well as the manner in which they assign resources to each segment. As a result of consolidation of the subsidiaries controlled by the Entity, intercompany transactions between the operating segment of the Entity are eliminated, which are shown in a separate column within the segment information below.

An operating segment is a component of an Entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the Management and the Board of Directors with respect to both performance evaluation and resource allocation, and for which discrete financial information is available. The Entity's reportable segments below are based on its operating segments.

For the six months ended June 30, 2014

Statement of income	Hotel operation	Hotel management	Total	Eliminations	Total consolidated
Total revenues	$ 620,453,096	$ 156,653,104	$ 777,106,200	$ (127,667,481)	$ 649,438,719
Costs and expenses (excluding depreciation)	(437,798,429)	(128,374,854)	(566,173,283)	127,667,481	(438,505,802)
Income before other non-recurring operating expenses and depreciation:	182,654,667	28,278,250	210,932,917	-	210,932,917
Other expenses and expenses associated with opening of new hotels	(6,705,954)	-	(6,705,954)	-	(6,705,954)
Income before depreciation	175,948,713	28,278,250	204,226,963	-	204,226,963
Depreciation	(101,377,081)	-	(101,377,081)	-	(101,377,081)
Operating income	$ 74,571,632	$ 28,278,250	$ 102,849,882	$ -	$ 102,849,882

For the six months ended June 30, 2013

Statement of income	Hotel operation	Hotel management	Total	Eliminations	Total consolidated
Total revenues	$ 491,796,757	$ 110,551,110	$ 602,347,867	$ (92,892,356)	$ 509,455,511
Costs and expenses (excluding depreciation	(345,716,312)	(101,308,457)	(447,024,769)	92,892,356	(354,132,413)
Income before other non-recurring operating expenses and depreciation:	146,080,445	9,242,653	155,323,098	-	155,323,098
Other expenses and expenses associated with opening of new hotels	(4,498,976)	-	(4,498,976)	-	(4,498,976)
Income before depreciation	141,581,469	9,242,653	150,824,122	-	150,824,122
Depreciation	(75,666,267)	-	(75,666,267)	-	(75,666,267)
Operating income	$ 65,915,202	$ 9,242,653	$ 75,157,855	$ -	$ 75,157,855

For the three months ended June 30, 2014

Statement of income	Hotel operation	Hotel management	Total	Eliminations	Total consolidated
Total revenues	$ 323,041,929	$ 83,236,484	$ 406,278,413	$ (67,990,832)	$ 338,287,581
Costs and expenses (excluding depreciation	(228,686,535)	(66,169,069)	(294,855,604)	67,990,832	(226,864,772)
Income before other non-recurring operating expenses and depreciation:	94,355,394	17,067,415	111,422,809	-	111,422,809
Other expenses and expenses associated with opening of new hotels	(2,865,433)	-	(2,865,433)	-	(2,865,433)
Income before depreciation	91,489,961	17,067,415	108,557,376	-	108,557,376
Depreciation	(51,255,906)	-	(51,255,906)	-	(51,255,906)
Operating income	$ 40,234,055	$ 17,067,415	$ 57,301,470	$ -	$ 57,301,470

For the three months ended June 30, 2013

Statement of income	Hotel operation	Hotel management	Total	Eliminations	Total consolidated
Total revenues	$ 257,491,495	$ 56,461,522	$ 313,953,017	$ (44,898,473)	$ 269,054,544
Costs and expenses (excluding depreciation	(179,408,800)	(53,520,838)	(232,929,638)	44,898,473	(188,031,165)
Income before other non-recurring operating expenses and depreciation:	78,082,695	2,940,684	81,023,379	-	81,023,379
Other expenses and expenses associated with opening of new hotels	(2,679,301)	-	(2,679,301)	-	(2,679,301)
Income before depreciation	75,403,394	2,940,684	78,344,078	-	78,344,078
Depreciation	(38,732,415)	-	(38,732,415)	-	(38,732,415)
Operating income	$ 36,670,979	$ 2,940,684	$ 39,611,663	$ -	$ 39,611,663

20. Contingencies and commitments

Neither the Entity nor its assets are subject to any legal action outside of the normal course of business.

During the six months ended June 30, 2014, the Entity signed agreements for the acquisition of properties for approximately $41,000,000.

21. Authorization to issue the consolidated financial statements

The issuance of the accompanying unaudited condensed consolidated interim financial statements was authorized by Ing. Luis Eduardo Barrios Sánchez, CEO, Lic. Roberto Palacios Prieto, CFO and C.P. Juan Carlos Pioquinto Vázquez, Director of Administration, on August 15, 2014 and consequently do not reflect events after this date.

* * * * * *

Independent Auditors' Report to the Board of Directors and Stockholders of Hoteles City Express, S. A. B. de C. V. and Subsidiaries

We have audited the accompanying consolidated financial statements of Hoteles City Express, S. A. B. de C. V. and Subsidiaries (the "Entity"), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the consolidated statements of income and other comprehensive income, of changes in stockholders' equity and of cash flows for the years ended December 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hoteles City Express, S. A. B. de C. V. and Subsidiaries as of December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

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

/s/ Juan Antonio Rodríguez Espínola

C. P. C. Juan Antonio Rodríguez Espínola
February 28, 2014

Hoteles City Express, S. A. B. de C. V. and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2013 and 2012
(In Mexican pesos)

Assets	Note	2013	2012
Current assets:			
Cash, cash equivalents and restricted cash	5	$ 1,687,289,890	$ 555,008,607
Account receivable, net	6	63,183,413	43,325,018
Recoverable taxes – mainly Value-Added Tax		166,769,957	121,930,128
Prepaid expenses	7	33,588,176	36,689,818
Total current assets		1,950,831,436	756,953,571
Non-current assets:			
Property, equipment and leasehold improvements, net	9	5,449,937,632	4,494,785,837
Guarantee deposits		2,897,808	2,897,807
Other assets	10	12,565,063	108,122,729
Derivative financial instruments	8	102,357	344,011
Total non-current assets		5,465,502,860	4,606,150,384
Total assets		$ 7,416,334,296	$ 5,363,103,955

Liabilities and Equity	Note	2013	2012
Current liabilities:			
Bank loans and current portion of long-term debt	11	$ 107,857,783	$ 86,688,414
Trade accounts payable		44,693,159	47,750,622
Other taxes, accrued expenses and other liabilities		84,689,678	85,836,786
Derivative financial instruments	8	-	262,888
Income tax and business flat tax payable		4,234,077	10,387,418
Direct employee benefits	12	1,097,471	6,067,292
Total current liabilities		242,572,168	236,993,420
Non-current liabilities:			
Long-term debt	11	1,966,589,611	1,625,551,129
Derivative financial instruments	8,16	10,720,706	-
Deferred revenue	13	15,876,186	17,851,159
Employee benefits	12	1,140,182	1,033,442
Deferred income tax	14	153,400,074	224,713,509
Total non-current liabilities		2,147,726,759	1,869,149,239
Total liabilities		2,390,298,927	2,106,142,659
Stockholders' equity and reserves:	17		
Controlling interest:			
Capital stock		3,642,550,334	716,942,825
Additional paid-in capital		52,459,520	1,074,219,173
Retained earnings		645,826,137	651,702,837
Other items of comprehensive income		(18,764,943)	1,187,218
Equity attributable to owners of the Entity		4,322,071,048	2,444,052,053
Non-controlling interests		703,964,321	812,909,243
Total stockholders' equity		5,026,035,369	3,256,961,296
Total liabilities and stockholders' equity		$ 7,416,334,296	$ 5,363,103,955

See accompanying notes to consolidated financial statements.

Hoteles City Express, S. A. B. de C. V. and Subsidiaries

Consolidated Statements of Income and Other Comprehensive Income

For the years ended December 31, 2013 and 2012
(In Mexican pesos)

	Note	2013	2012
Revenues from hotel operation		$ 1,055,702,721	$ 890,715,698
Revenues from hotel management		48,252,880	41,487,594
Total	26	1,103,955,601	932,203,292
Hotel operating costs and expenses	21	569,704,555	502,353,336
Selling and administrative expenses	22	177,174,361	147,540,835
Depreciation		163,662,568	144,498,459
Cost and expenses		910,541,484	794,392,630
Expenses associated with opening of new hotels		15,967,374	12,277,585
Other (income) expenses	23	(1,119,368)	2,594,087
Consolidated operating income		178,566,111	122,938,990
Finance costs		(106,241,358)	(97,480,643)
Finance income		38,189,742	17,264,610
Exchange result, net		(2,245,897)	(10,137,482)
Valuation effects of derivative financial instruments		2,355,345	(1,435,339)
Other financial costs		(8,136,765)	-
		(76,078,933)	(91,788,854)
Income before income tax		102,487,178	31,150,136
Income tax expense	14	18,754,139	5,557,847
Consolidated net income for the year		83,733,039	25,592,289
Other comprehensive income:	18		
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation effect		(9,478,983)	(3,765,600)
Valuation effect of hedging instruments		(7,504,494)	-
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial loss (gain) from employee benefits		370,598	(170,932)
Deferred tax effects of net actuarial loss (gain) from employee benefits		111,179	(17,189)
Other comprehensive income		(16,501,700)	(3,953,721)
Total consolidated comprehensive income for the year		$ 67,231,339	$ 21,638,568
Consolidated net comprehensive income attributable to:			
Owners of the Entity		$ 72,575,256	$ 23,990,746
Non-controlling interests		11,157,783	1,601,543
		$ 83,733,039	$ 25,592,289
Consolidated comprehensive income for the year attributable to:			
Owners of the Entity		$ 59,012,593	$ 21,966,525
Non-controlling interests		8,218,746	(327,957)
		$ 67,231,339	$ 21,638,568
Earnings per share:			
Basic and diluted (cents per share)		$ 0.3087	$ 0.1295

See accompanying notes to consolidated financial statements.

Hoteles City Express, S. A. B. de C. V. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2013 and 2012
(In Mexican pesos)

	Note	Capital stock	Additional paid-in capital	Retained earnings	Net actuarial gain (loss)	Currency translation effect on foreign operations	Valuation effects on financial derivative instruments	Attributable to owners of the parent	Non-controlling interests	Total
Balance as of January1, 2012		$ 716,942,825	$ 1,074,219,173	$ 644,867,447	$ 221,772	$ 2,989,667	$ -	$ 2,439,240,884	$ 730,275,934	$ 3,169,516,818
Acquisitions of non-controlling interests	19	-	-	(17,155,356)	-	-	-	(17,155,356)	(14,844,644)	(32,000,000)
Contributions of non-controlling interests	19	-	-	-	-	-	-	-	104,668,512	104,668,512
Equity reductions		-	-	-	-	-	-	-	(4,511,348)	(4,511,348)
Dividends paid		-	-	-	-	-	-	-	(2,351,254)	(2,351,254)
Comprehensive income for the year		-	-	23,990,746	(141,421)	(1,882,800)	-	21,966,525	(327,957)	21,638,568
Balance as of December 31, 2012	17	716,942,825	1,074,219,173	651,702,837	80,351	1,106,867	-	2,444,052,053	812,909,243	3,256,961,296
Equity increase		1,851,388,336	52,459,520	-	-	-	-	1,903,847,856	-	1,903,847,856
Capitalization of additional paid-in capital		1,074,219,173	(1,074,219,173)	-	-	-	-	-	-	
Acquisitions of non-controlling interests	19	-	-	(78,451,956)	-	(6,389,498)	-	(84,841,454)	(313,087,882)	(397,929,336)
Contributions of non-controlling interests	19	-	-	-	-	-	-	-	203,906,214	203,906,214
Equity reductions		-	-	-	-	-	-	-	(3,382,000)	(3,382,000)
Dividends paid		-	-	-	-	-	-	-	(4,600,000)	(4,600,000)
Comprehensive income for the year		-	-	-	475,676	(6,533,845)	(7,504,494)	59,012,593	8,218,746	67,231,339
Balance as of December 31, 2013	17	$ 3,642,550,334	$ 52,459,520	$ 645,826,137	$ 556,027	$ (11,816,476)	$ (7,504,494)	$ 4,322,071,048	$ 703,964,321	$ 5,026,035,369

See accompanying notes to consolidated financial statements.

Hoteles City Express, S. A. B. de C. V. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2013 and 2012
(In Mexican pesos)

	2013	2012
Cash flows from operating activities		
Income before income tax	$ 102,487,178	$ 31,150,136
Adjustments for:		
Depreciation	163,662,568	144,498,459
Loss on disposal of fixed assets	4,556,009	23,673,031
Finance income	(38,189,742)	(17,264,610)
Finance costs	106,241,358	97,480,643
Valuation effects of financial instruments	3,194,978	1,435,339
Unrealized foreign currency fluctuations	(5,704,772)	(1,105,600)
	336,247,577	279,867,398
Working capital adjustments:		
Accounts receivable and recoverable taxes	(64,698,226)	(47,962,428)
Prepaid expenses	3,101,643	1,225,895
Guarantee deposits	-	(501,099)
Trade accounts payable	(3,057,463)	9,339,819
Other taxes, accrued expenses, other liabilities and deferred revenue	(17,526,858)	52,751,786
Employee benefits	(4,387,405)	1,764,260
Income and business flat tax paid	(22,060,860)	(27,187,692)
Net cash generated by operating activities	227,618,408	269,297,939
Cash flows from investing activities:		
Acquisition of property, equipment and leasehold improvements	(994,235,566)	(776,146,453)
Acquisition of subsidiaries, net of cash acquired	(66,646,785)	-
Other assets	7,328,164	(99,440,810)
Finance income collected	38,189,742	17,264,610
Net cash used in investing activities	(1,015,364,445)	(858,322,653)
Cash flows from financing activities:		
Common stock increase and additional paid in capital	1,568,744,988	-
Proceeds from contributions received from non-controlling interests	203,906,214	104,668,512
Reductions in contributions received from non-controlling interests	(3,382,000)	(4,511,348)
Payment of dividends of non-controlling interests	(4,600,000)	(2,351,254)
Finance costs paid	(97,989,922)	(93,011,311)
Proceeds from long-term borrowings	784,657,686	1,329,881,048
Repayment of borrowings	(412,162,387)	(726,108,864)
Acquisition of non-controlling interests	(105,471,999)	(32,000,000)
Net cash provided by financing activities	1,933,702,580	576,566,783
Net increase (decrease) in cash, cash equivalents and restricted cash	1,145,956,543	(12,457,931)
Cash, cash equivalents and restricted cash at the beginning of the year	555,008,607	571,182,858
Effects of exchange rate changes on the balance of cash held in foreign currencies and effects of balances of foreign operations	(21,179,754)	(3,716,320)
Valuation effects of hedging instruments	7,504,494	-
Cash, cash equivalents and restricted cash at the end of the year	$ 1,687,289,890	$ 555,008,607
Transactions that did not require cash flow		
Acquisition of property, equipment and leasehold improvements on account	$ -	$ 5,575,030

See accompanying notes to consolidated financial statements.

1. General information

Hoteles City Express, S. A. B. de C. V. and Subsidiaries (the "Entity") are primarily engaged in the ownership, operation and management of hotels using the brand names Hoteles City Express, City Suites and City Junior. Its activities include structuring hotel projects, overseeing the development of hotels and real estate, management, marketing, franchising, maintenance, organization of properties in the hotel industry, as well as providing hotel construction and technical, administrative and /or specialized services either directly or through third parties.

At December 31, 2013 and 2012, rooms operated, under the trade names of the Entity, amounted to 9,326 and 8,092, of which 1,868 and 1,715, were for managed hotels and hotels operated as a franchise.

One of the subsidiaries of the Entity has entered into various executive management services agreements for development projects and for supervision, administration and franchise services, with all subsidiaries of the Entity that act as hotel operators. As consideration, the subsidiary receives a fixed fee and a variable fee, based on the amount of investment associated with the development and commencement of operation of hotel units and the related hotel revenues, as well as an incentive fee relating to operating income for the use of the hotel brand name and reservation system.

During 2013 and 2012, new hotels were developed and completed, the number of rooms available increased, land was acquired, new projects with other partners were started and new strategies to continue to increase market penetration and occupancy of hotels were developed. During 2013, the Entity began operating 11 hotels, of which 2 are operated under our managed hotels model. During 2012, the Entity began operating 12 hotels, of which 2 are operated under our managed hotels model.

The business address is Juan Salvador Agraz #69, Santa Fe, Cuajimalpa de Morelos, México, Distrito Federal, 05348.

2. Basis of presentation

a. *New and revised International Financing Reporting Standards (IFRS) affecting amounts reported and/or disclosures in the financial statements*

In 2013, the Entity applied a number of new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2013.

Amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*

The Entity applied the amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* for the first time in 2013. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to the IFRS 7, have been applied retrospectively. As the Entity does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

IFRS 13 Fair Value Measurement

The Entity applied IFRS 13 for the first time in 2013. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from January 1, 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Entity has not made any new disclosures required by IFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in the consolidated financial statements.

b. ***New and revised IFRSs in issue but not yet effective***

The Entity has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[3]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[2]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[1]

[1] Effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.
[2] Effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.
[3] Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities*

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services.
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

The Entity's management does not anticipate that the investment entities amendments will have any effect on the Entity's consolidated financial statements as the Entity is not an investment entity.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The Entity's management does not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Entity's consolidated financial statements as the Entity does not have any financial assets and financial liabilities that qualify for offset.

3. Significant accounting policies

a. ***Statement of compliance***

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the IASB.

b. ***Basis of measurement***

The consolidated financial statements have been prepared on the historical cost basis except for *certain financial instruments* that are measured at fair value, as explained in the accounting policies below.

i. Historical cost

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

ii. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

c. ***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of *Hoteles City Express, S. A. B. de C. V.* and its subsidiaries controlled by it. The Entity's shareholding percentage in their capital stock is shown below:

Entity	Ownership	Activity
Inmobiliaria Hotelera City Express, S. A. de C. V.	100	Holding company located in Mexico
Operadora de Hoteles City Express, S. A. de C. V.	100	Management, development, franchise and marketing services provider of hotel properties
Operadora de Hoteles City Internacional, S. A. de C. V.	100	Management, development, franchise and marketing services provider of hotel properties, mainly located outside of Mexico.
Servicios Comerciales y Promoción de Hoteles, S. A. de C. V.	100	Corporate services provider located in Mexico.
Promotora Hotelera City Express, S. A. de C. V.	100	Holding company of subsidiaries located outside of Mexico, with investment in Sac Be Ventures, LLC 100% and Hoteles City Express Chile, LTDA 100% (Holding entity of Inversiones HCP, S.A. at 50% ownership).
City Express Administración Corporativa, S. A. de C. V.	100	Provides services to hoteling development.

The following table lists the subsidiaries with non-controlling interests by sub-holding entity. As of December 31, 2013 and 2012, the results, other comprehensive income and shareholders' equity of non-controlling interests were as follows:

	Results and other comprehensive income attributable to non-controlling interest		Accumulated non-controlling interest	
	2013	2012	2013	2012
Inmobiliaria Hotelera City Express, S. A. de C. V.	$ 15,652,261	$ 6,832,683	$ 703,964,231	$ 692,558,728
Promotora Hotelera City Express, S. A. de C. V.	(7,433,515)	(7,160,640)	-	120,350,515
Total	$ 8,218,746	$ (327,957)	$ 703,964,231	$ 812,909,243

The entities in which the Entity has a 50% ownership are included in these consolidated financial statements because the Entity has control over the relevant activities that generate the variable returns of such investments.

The consolidated financial statements incorporate the financial statements of *Hoteles City Express, S. A. B. de C. V.* and its subsidiaries controlled by it. Control is achieved when the Entity:

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

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

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

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

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

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

When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with the Entity's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Entity are eliminated in full on consolidation.

d. ***Changes in the Entity's ownership interests in existing subsidiaries***

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

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

e. ***Business combinations***

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Entity, liabilities incurred by the Entity to the former owners of the acquiree and the equity interests issued by the Entity in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred income tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19, respectively;

- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Entity entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share based payments* at the acquisition date; and

- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the Entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Entity in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Entity's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

f. ***Cash and cash equivalents***

Cash and cash equivalents consist mainly of bank deposits in checking accounts and short-term investments that are highly liquid and easily convertible into cash, mature within three months from their acquisition date and are subject to low risk of material changes in value. Cash equivalents are maintained to comply with short term cash commitments and not for the purpose of investment or any other purpose. Equity investments are not included as cash equivalents unless they are in substance considered as cash equivalent. Cash is stated at nominal value and cash equivalents are valued at fair value; any fluctuations in value are recognized in financing (cost) income of the period.

g. ***Financial assets***

Financial assets are recognized when the Entity or a subsidiary of the Entity becomes a party to the contractual provisions of the instruments.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognized immediately in profit or loss. During the periods presented in the consolidated financial statements, the Entity only had financial assets within the categories of financial assets measured at fair value, loans and accounts receivable.

- Financial assets at FVTPL

  Financial assets are classified as at fair value through profit or loss ("FVTPL") when the financial asset is either held for trading or it is designated as at FVTPL. The Entity has not designated any asset at FVTPL, but it maintains financial assets held for trading and derivative financial instruments classified as hedges. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'valuation effects of financial instruments' line item, in the consolidated statement of income and other comprehensive income.

- Loans and receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of interest recognition is immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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

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

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

Derecognition of financial assets

The Entity derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

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

h. ***Other assets***

Other assets represent cash disbursements made with the objective of acquiring assets that meet the definition of property and equipment. Such payments are recorded as other assets because title to the property has not been transferred to the Entity. Once the asset is paid for in full, it is probable that the monetary benefits associated with the asset will transfer to the Entity, the cost can be reasonably measured and the legal title has been transferred to the Entity, such disbursements are accounted as part of the asset acquired and are reclassified from other assets.

i. ***Property, equipment and leasehold improvements***

Property and fixtures and equipment are initially recorded at acquisition cost.

Land is not subject to depreciation.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis.

The average depreciation rates applied to property, equipment and leasehold improvements recognized in the statement of income is as follows:

Buildings	2.0%
Operating equipment	16.7%
Minor equipment	12.0%
Computers	33.3%
Furniture and equipment	10.0%
Leaseholds improvements	20.0%
Vehicles	20.0%
Improvement and replacements	20.0%

Leasehold improvements are amortized over the shorter period of their useful life or the lease agreement term.

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

j. ***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

The Entity capitalizes borrowing costs during construction of new hotels, as well as during major remodeling of existing hotels.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

k. ***Impairment of long-lived assets in use***

In the presence of any indicators of impairment (operating losses, negative cash flows, projected losses, among others), which indicate that the carrying value of a long-lived asset may not be recoverable, the Entity reviews such carrying value against the recoverable value of the asset. Recoverable value is the greater of the present value of future net cash flows or fair value less costs to sell the asset. The asset is reduced to its recoverable value when that value is less than the asset’s carrying value.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

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

l. ***Financial liabilities and equity instruments***

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

Financial liabilities are initially valued at fair value. Transaction costs that are directly attributable to the issue of financial liabilities (other than financial liabilities at fair value through profit or loss) are deducted from the fair value of financial liabilities at initial recognition. Transaction costs directly attributable to the issue of financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

- Classification as debt or equity

  Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

- Equity instruments

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

- Financial liabilities

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

- Financial liabilities at fair value through profit or loss

  Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the ‘valuation effects of financial instruments’ line item in the statement of income and other comprehensive income.

- Other financial liabilities

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

  The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

- Derecognition of financial liabilities

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

m. ***Income taxes***

Income tax expense represents the sum of the current income tax and deferred income tax.

- Current income tax

  The tax currently payable is generally based on taxable profit for the year and cash flows. Taxable profit differs from profit as reported in the consolidated statement of income and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Entity's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

  The foreign subsidiaries calculate income tax on their individual results, according to the regulations of each country.

  Pricom Cariari, S. A. - Costa Rica: is subject to an income tax of 30% according to the tax laws of Costa Rica.

  Sac Be Ventures Colombia, S. A. S. - Colombia: is subject to a statutory income tax of 25% beginning January 1, 2013 and to 33% for 2012. The rate reduction for the income tax for 2013 was declared by the Law 1607 dated December 2012 whereby an equity tax was established, the "CREE", at a 9% rate, applicable starting January 1, 2013. This tax is calculated based on gross income less non-taxable income, expenses, deductions, and windfall profits, at a rate of 8%. For the years 2013, 2014 and 2015, the applicable rate will be 9%.

  Hoteles City Express Chile, LTDA and subsidiaries (HCE Chile): is subject to statutory income tax in Chile, which is 20%.

  The Mexican legal entities are subject to Mexican income tax ("ISR") and through December 31, 2013, the Business Flat Tax ("IETU"). As a consequence of the Mexican 2014 Tax Reform, deferred IETU is no longer recognized as of December 31, 2013.

- Deferred income tax

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

  Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

Deferred tax assets and deferred tax liabilities are offset when there is a legal right to offset assets with liabilities and when they relate to income taxes relating to the same taxing authority and the Entity intends to liquidate its assets and liabilities on a net basis.

In the case of the Mexican legal entities, as a consequence of the 2014 Tax Reform, as of December 31, 2013, deferred IETU is no longer recognized and therefore any effect previously recognized was written off against profit for the year.

- Current and deferred tax for the year

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

n. ***Provisions***

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties associated with the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are classified as current or non-current considering the estimated period of time when the obligations they cover are due.

o. ***Revenue recognition***

The Entity recognizes revenue as follows:

i. Revenue from hotel operations is recognized based on the provision of accommodation and additional services (for example, room rental and food and beverage services);

ii. Revenue from hotel management is recognized as earned, as set forth in the operating contracts, and

iii. Revenues from loyalty programs to customers are recognized when the service is rendered and are reported as part of income from hotel operations. The fair value of the awards to customers is initially recognized as a reduction of income, as deferred income, which is subsequently recognized when the benefits of related services are delivered or provided to the customer. The liability is presented under deferred revenue in the consolidated statement of financial position.

p. ***Foreign currencies***

The individual financial statements of each subsidiary of the Entity are prepared in the currency of the primary economic environment in which such subsidiary operates (its functional currency). For purposes of these consolidated financial statements, the results and financial position of each entity are expressed in Mexican pesos, which is the functional currency of Hoteles City Express, S.A.B. de C.V. and the presentation currency for the consolidated financial statements.

In preparing the financial statements of each individual subsidiary of the Entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

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

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

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Entity's foreign operations are translated into Mexican pesos using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Entity losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Entity losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

The recording and functional currencies of foreign operations are as follows:

Foreign operation	Functional currency
Sac Be Ventures, LLC	US Dollar
Pricom Cariari, S. A. (Costa Rica)	Costa Rican Colon
Sac Be Ventures Colombia, S. A. S	Colombian Peso
Hoteles City Express Chile, LTDA and Subsidiaries (HCE Chile)	Chilean Peso

q. ***Employee benefits from termination, retirement and statutory employee profit sharing (PTU)***

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

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

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

The Entity presents the first two components of defined benefit costs in profit or loss. Gains and losses for reduction of service are accounted for as past service costs.

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

A liability for a termination benefit is recognized at the earlier of when the Entity can no longer withdraw the offer of the termination benefit and when the Entity recognizes any related restructuring costs.

Statutory employee profit sharing ("PTU") –

PTU is recorded in the results of the year in which it is incurred and is presented in the hotel operating costs and expenses line item in the statement of income and other comprehensive income.

r. ***Statement of cash flows***

The Entity reports cash flows using the indirect method whereby the profit or loss is adjusted for the effects of transactions of a nature different than cash, any deferral of inflow or outflow of cash for past or future accumulation or items of income or expenses associated with investing or financing activities that did not generate or utilize cash flows.

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

s. ***Leasing***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Entity, during the periods presented, only had operating leases.

1. The Entity as lessee

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

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

t. ***Derivative financial instruments***

The Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

u. ***Hedge accounting***

The Entity designates certain instruments as hedging instruments.

At the inception of the hedge relationship, the Entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Entity documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

1. Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued when the Entity revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

2. Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the "other income (expenses)" line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Entity revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

v. ***Earnings per share of controlling interests***

Basic earnings per common share are calculated by dividing profit for the year attributable to owners of the Entity by the weighted average number of ordinary shares outstanding during the year.

The Entity does not have any dilutive instruments during the periods presented, for which reason basic and diluted earnings per share are the same.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Entity's accounting policies, which are described in Note 3, the Entity's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

a. ***Critical judgments in applying accounting policies***

i. Consolidation of subsidiaries

Certain investments in entities in which the Entity has a 50% shareholding are consolidated in these financial statements, as the Entity has concluded that it exercises control over the relevant activities. In management's judgment, it controls the subsidiaries' relevant activities through executed agreements with the shareholders and other operating contracts. These contracts contain potential voting rights whereby the Entity may acquire shares owned by third parties, which could be executed under certain circumstances.

b. ***Accounting estimates***

Estimates and assumptions are reviewed on a regular basis. Changes to accounting estimates are recognized in the period in which the change is made and future periods if the change affects both the current period and subsequent periods.

i. Revenue recognition related to client's loyalty programs

In applying judgment, management considers the detailed criteria for the recognition of revenue set out in IFRIC 13 *Customer Loyalty Programs* and, in particular, whether the Entity has rendered the related service. Its impact is in the line item of deferred revenue, in the consolidated statement of financial position

ii. Valuation of income tax

In the determination of deferred tax, the Entity estimates the certainty of generating taxable income in future periods in order to be able to benefit from its deferred tax assets, using projections of future taxable income to assist in this analysis. Impacts of changes in those projections could affect the realizability of the deferred tax assets in the consolidated statement of financial position and any related deferred tax benefit or expense for the period. The Entity has concluded that it will generate sufficient taxable income in order to utilize the benefit generated from its deferred income tax assets.

iii. Useful lives of property, equipment and leasehold improvements

The Entity, through its internal experts opinion within its development area, evaluates, at the end of each reporting period, the useful life and the residual values of fixed assets, considering their operational experience and characteristics of the assets. Impacts to changes in those estimates could affect the value of property, equipment and leasehold improvements and the related depreciation expense for the period.

5. Cash, cash equivalents and restricted cash

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

	2013	2012
Cash and bank deposits	$ 354,570,030	$ 93,963,678
Cash equivalents - Investments available on demand	1,303,804,862	435,889,962
Restricted cash (1)	28,914,998	25,154,967
	$ 1,687,289,890	$ 555,008,607

(1) Restricted cash represents funds held in a trust, as required by the Entity's loan agreements, in amounts equal to the principal and interest payments as established in these agreements. The payments are generally related to the following month or quarter, for which reason, restricted cash is classified as current.

6. Accounts receivable

a) Accounts receivable are as follows:

	2013	2012
Customers	$ 60,157,306	$ 39,259,217
Allowance for doubtful accounts	(362,763)	(724,959)
Sundry debtors	3,388,870	4,790,760
	$ 63,183,413	$ 43,325,018

The Entity has customers pursuant to agreements with certain companies, to whom it provides preferred rates and credit terms of 15 to 30 days. The Entity investigates the behavior of potential clients with other hotels, requesting letters of recommendation, in order to negotiate the same preferred rates and terms with such clients.

The Entity has an allowance for doubtful accounts, which is determined by reserving 100% of accounts receivable deemed to be uncollectible. To determine that an account receivable is uncollectible, the Entity is required to have exhausted all negotiations possible with the customer. The Entity also monitors the global deterioration of its receivable portfolio and only recognizes an allowance when there are indicators of impairment that exceed from 1% to 2% of the total portfolio value.

Accounts receivable described above include amounts in arrears at the end of the period and for which the Entity has not recognized an allowance for doubtful accounts, because there has not been a significant change in credit quality and the amounts still are considered recoverable.

As of December 31, 2013, 67% of the past due portfolio is 30 days past due, 19% of the past due portfolio is 31 to 90 days past due and 14% of the past due portfolio is more than 90 days past due (days past due begin one day subsequent to the payment term date).

b) Movement in the allowance for doubtful accounts

		2013		2012
Balance at beginning of the year	$	(724,959)	$	(404,902)
Impairment losses recognized on receivables		(344,950)		(407,690)
Amounts written off during the year as uncollectible		707,146		87,633
Balance at end of the year	$	(362,763)	$	(724,959)

In determining the recoverability of a trade receivable, the Entity considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. Four major customers accounted for 29% and 24% of the accounts receivable as of December 31, 2013 and 2012, respectively.

The Entity does not hold any collateral over the balances considered uncollectible.

c) Aging of impaired trade receivables

Impaired receivables have an average age of 174 and 164 days as of December 31, 2013 and 2012, respectively.

7. Prepaid expenses

		2013		2012
Insurance paid in advance	$	5,812,587	$	8,102,786
Prepaid rentals		1,542,411		-
Supplier's advances		9,803,876		15,910,423
Prepaid services		12,776,960		6,847,840
Prepaid expenses		3,652,342		5,828,769
	$	33,588,176	$	36,689,818

8. Derivative financial instruments

In order to manage interest rate risk with respect to loans, certain subsidiaries have entered into interest rate swaps and interest rate caps for which the corresponding subsidiary will pay interest based on fixed interest rates and receives amounts calculated based on the variable interest rates. As of December 31, 2012 all derivative instruments had been classified as held for trading and hedge accounting had not been applied. Derivative financial instruments entered into in 2013 were considered as cash flow hedges.

	Beginning date	Ending date		Notional		2013 Fair Value		2012 Fair Value
Cap TIIE (28 days) 8.5% Santander	25-March-2009	18-March-2014	$	20,919,000	$	-	$	514
Cap TIIE (28 days) 8.5% Santander	16-February-2009	15-February-2014		27,365,814		-		624
Cap TIIE (28 days) 8% Santander	17-April-2009	15-April-2014		33,728,532		-		2,304
Cap TIIE (28 days) 7.50% Santander	09-April-2011	08-April-2015		29,537,000		5,448		63,161
Cap TIIE (28 days) 8% Santander	20-July-2009	15-July-2014		18,918,000		2		3,525
Cap TIIE (28 days) 6% Credit Suisse	18-August-2012	15-August-2014		56,277,000		8		50,194
Cap TIIE (28 days) 6% Credit Suisse	18-August-2012	15-August-2014		32,877,000		4		29,403
Cap TIIE (28 days) 6% Credit Suisse	18-August-2012	15-August-2014		31,590,000		4		28,252
Cap TIIE (91 days) 8.5% BBVA Bancomer	15-August-2007	15-November-2016		55,000,000		13,163		23,625
Cap TIIE (28 days) 9% BBVA Bancomer	05-June-2006	04-November-2014		19,000,000		-		13
Cap TIIE (28 days) 9% BBVA Bancomer	14-August-2006	19-November-2014		20,000,000		-		29
Cap TIIE (28 days) 8.5% Santander	17-May-2007	17-May-2017		27,000,000		48,528		80,005
Cap TIIE (91 days) 8.5% BBVA BANCOMER	28-September-2007	28-June-2017		25,638,500		34,918		35,055
Cap TIIE (91 days) 7.5% BBVA BANCOMER	28-June-2011	30-April-2015		28,762,000		279		14,286
Cap TIIE (91 days) 8.0% Santander	17-April-2009	27-March-2014		22,027,560		-		316
Cap TIIE (28 days) 6.5% HSBC	14-April-2012	26-December-2013		28,601,446		-		489
Cap TIIE (28 days) 6.5% HSBC	25-April-2012	16-December-2013		38,404,133		-		713
Cap TIIE (28 days) 6.5% HSBC	04-April-2012	03-December-2013		28,880,000		-		380
Cap TIIE (28 days) 6% HSBC	03-June-2012	12-May-2014		39,305,629		3		11,123
					$	102,357	$	344,011

*TIIE = Mexican Interbank Equilibrium Interest Rate

	Beginning date	Ending date		Notional		2013 Fair value		2012 Fair Value
Swap TIIE (28 days) 9.89% IXE	31-May-2004	29-November-2013	$	18,000,000	$	-	$	45,529
Swap USD Libor 6M 5.26% IXE	18-August-2004	18-March-2013		1,386,847		-		41,196
Swap TIIE (28 days) 9.91% IXE	11-June-2004	11-December-2013		9,150,000		-		64,134
Swap TIIE (28 days) 9.86% IXE	04-June-2004	04-December-2013		17,300,000		-		69,069
Swap USD Libor 6M 5.41% IXE	27-September-2004	26-March-2013		1,765,000		-		42,960
Swap TIIE (28 days) 5.24% HSBC	15-January-2013	15-January-2017		758,196,458		10,720,706		-
					$	10,720,706	$	262,888

9. Property, equipment and leasehold improvements

	2012	Additions	Disposals	Capitalization of construction in progress	Effects of foreign exchange rates	2013
Land	$ 1,228,553,112	$ 329,396,905	$ -	$ -	$ (25,822,511)	$ 1,532,127,506
Buildings	2,654,653,914	187,553,791	(4,315,530)	563,289,331	1,670,658	3,402,852,164
Operating equipment	499,462,428	35,855,581	(88,613,404)	122,151,273	240,440	569,096,318
Minor equipment	46,657,300	774,671	(12,419,208)	-	-	35,012,763
Computers	61,900,449	18,494,131	(12,731,360)	3,221,101	79,245	70,963,566
Furniture and equipment	16,833,814	32,760,517	(1,942,339)	1,121,126	-	48,773,118
Leasehold improvements	8,044,901	-	-	-	-	8,044,901
Vehicles	24,663,027	5,596,005	(3,231,305)	2,193,878	19,556	29,241,161
Remodeling and replacements	26,014,050	22,264,509	(3,196,006)	5,095,920	18,343	50,196,816
Construction in-progress	360,200,301	526,469,105	(1,431,669)	(697,072,629)	(1,947,213)	186,217,895
Total	4,926,983,296	1,159,165,215	(127,880,821)	-	(25,741,482)	5,932,526,208
Accumulated depreciation						
Buildings	(63,532,308)	(36,783,678)	180,707	-	-	(100,135,279)
Operating equipment	(267,477,009)	(107,916,068)	95,253,119	-	-	(280,139,958)
Minor equipment	(30,508,729)	(5,505,858)	12,395,205	-	-	(23,619,382)
Computers	(30,930,293)	(17,108,643)	12,764,660	-	-	(35,274,276)
Furniture and equipment	(23,827,131)	(1,467,012)	96,295	-	-	(25,197,848)
Leasehold improvements	(4,838,924)	-	-	-	-	(4,838,924)
Vehicles	(11,083,065)	(4,934,670)	2,634,826	-	-	(13,382,909)
Accumulated depreciation	(432,197,459)	(173,715,929)	123,324,812	-	-	(482,588,576)
Total	$ 4,494,785,837	$ (973,780,792)	$ 251,205,633	$ -	$ (25,741,482)	$ 5,449,937,632

	2011	Additions	Disposals	Capitalization of construction in progress	Effects of foreign exchange rates	2012
Land	$ 1,094,835,294	$ 130,122,918	$ -	$ -	$ 3,594,900	$ 1,228,553,112
Buildings	2,205,825,170	-	5,529,943	454,455,732	(97,045)	2,654,653,914
Operating equipment	414,025,502	114,584,537	29,130,454	-	(17,157)	499,462,428
Minor equipment	46,590,285	75,407	4,689	-	(3,703)	46,657,300
Computers	55,208,073	22,482,552	15,790,176	-	-	61,900,449
Furniture and equipment	16,314,371	1,962,668	1,443,225	-	-	16,833,814
Leasehold improvements	8,044,901	-	-	-	-	8,044,901
Vehicles	20,420,339	7,638,708	3,396,020	-	-	24,663,027
Remodeling and replacements	12,793,206	13,220,844	-	-	-	26,014,050
Construction in-progress	327,591,818	491,633,850	-	(454,455,732)	(4,569,635)	360,200,301
Total	4,201,648,959	781,721,484	55,294,507	-	(1,092,640)	4,926,983,296
Accumulated depreciation						
Buildings	(38,142,814)	(29,449,130)	4,059,636	-	-	(63,532,308)
Operating equipment	(193,138,853)	(88,592,541)	14,254,385	-	-	(267,477,009)
Minor equipment	(29,493,536)	(1,785,226)	770,033	-	-	(30,508,729)
Computers	(28,984,968)	(18,586,199)	16,640,874	-	-	(30,930,293)
Furniture and equipment	(17,431,832)	(7,772,841)	1,377,542	-	-	(23,827,131)
Leasehold improvements	(4,838,924)	-	-	-	-	(4,838,924)
Vehicles	(8,382,188)	(6,248,024)	3,547,147	-	-	(11,083,065)
Accumulated depreciation	(320,413,115)	(152,433,961)	40,649,617	-	-	(432,197,459)
Total	$ 3,881,235,844	$ 629,287,523	$ (14,644,890)	$ -	$ (1,092,640)	$ 4,494,785,837

i) Assets pledged as collateral

Certain of the Entity's land and buildings are pledged as collateral on its bank loans (see Note 11). The Entity is not authorized to grant such land as collateral for other loans or sell such land to another entity.

ii) Cost of capitalized interest

Capitalized interest at December 31, 2013 and 2012 are $39,965,262 and $14,954,701, respectively.

10. Other assets

	2013	2012
Advance payment for purchase of land	$ 12,200,000	$ 91,031,931
Deposit for purchase of land	-	14,467,910
Payment for obtaining bank loans	-	2,622,888
Sundry debtors	365,063	-
	$ 12,565,063	$ 108,122,729

11. Bank loans

To finance the development and construction of buildings, the Entity has issued long-term bank loans in Mexican pesos, U.S. dollars, and Chilean pesos with domestic and international financial institutions. These financings were issued directly by the subsidiary companies that own each of the hotels, with the hotels as collateral or other guarantees set up through unit trusts on each property, generally providing a joint obligation with related companies.

At December 31, 2013 and 2012, the long-term bank loans are summarized as follows:

	2013	2012
Collateralized loans (hotels as collateral), carried at amortized cost:		
Line of credit with HSBC up to $830,001,812, at TIIE (28 days) plus 1.90%, maturing in 2019 (ii).	$ 712,360,110	$ 759,388,095
HSBC loan for $19,000,000, at TIIE (28 days) plus 2.60%, maturing in 2014 (ii), (vi).	-	4,963,049
Line of credit with BANAMEX up to $500,000,000, at TIIE (28 days) plus 2.00%, maturing in 2023 (ii).	133,769,297	-
Banorte loan for $20,000,000, at TIIE (28 days) plus 2.85%, maturing in 2014 (i).	3,261,273	6,186,852
HSBC loan for $20,423,000, at TIIE (28 days) plus 2.60%, maturing in 2015 (i).	6,979,414	9,609,715
BANCOMEXT loan for $22,027,560, at TIIE (28 days) plus 2.75%, maturing in 2016 (i).	7,741,239	10,599,044
BANCOMEXT loan for $24,122,484, at TIIE (28 days) plus 2.75%, maturing in 2016 (i), (vi).	-	13,995,754
BANCOMEXT loan for $21,452,643, at TIIE (28 days) plus 4.00%, maturing in 2018 (iii), (vi).	-	17,443,344
BANCOMEXT loan for $33,109,427, at TIIE (28 days) plus 3.25%, maturing in 2020 (i), (vi).	-	28,582,319
Santander loan for $27,000,000, at TIIE (28 days) plus 2.75%, maturing in 2017 (i).	10,794,082	17,136,673
Loan with MetLife for $85,000,000, fixed rate of 8.88%, maturing in 2019 (ii).	81,297,181	82,522,855
BBVA loan for $25,380,000, at TIIE (28 days) plus 1.95%, maturing in 2017 (iii).	11,588,597	14,713,785
BBVA loan for $28,762,000, at TIIE (28 days) plus 2%, maturing in 2020 (iii).	19,522,730	27,255,998
Banorte loan for $29,300,000, at TIIE (28 days) plus 1.96%, maturing in 2018 (i).	15,599,408	17,615,151

	2013	2012
BANCOMEXT loan for $43,404,133, at TIIE (28 days) plus 3.25%, maturing in 2020 (i) (vi).	-	35,249,554
Scotiabank loan for $33,000,000, at TIIE (28 days) plus 2.20%, maturing in 2020 (i).	32,480,024	-
BANCOMEXT loan up to $ 28,601,446, at TIIE (90 days) plus 3.25%, maturing in 2020 (i).	26,064,132	26,354,375
Santander loan with for $26,039,905, at TIIE (28 days) plus 4.00%, maturing in 2018 (iii).	17,959,968	20,661,327
Scotiabank loan for $30,000,000, at TIIE (28 days) plus 2.2%, maturing in 2015 (i).	22,784,877	25,235,383
BANCOMEXT loan for $35,331,922, at TIIE (28 days) plus 2.25%, maturing in 2021 (i).	23,171,923	31,726,689
BANCOMEXT loan for $42,405,101, at TIIE (28 days) plus 3.25% maturing in 2021 (i).	38,220,499	38,441,011
BANCOMEXT loan for $39,305,629, at TIIE (28 days) plus 3.25%, maturing in 2021 (i).	36,488,106	38,479,813
BANCOMEXT loan for $30,000,000, at TIIE (28 days) plus 2.25%, maturing in 2021 (i).	28,272,926	28,824,297
Scotiabank loan for $28,880,000, at TIIE (28 days) plus 2.2%, maturing in 2016 (i).	24,037,135	26,269,401
Loan from International Finance Corporation for $191,000,000, at TIIE (28 days) plus 2.665% maturing in 2022 (i).	186,323,010	182,781,923
BANCOMEXT loan for $35,133,148, at TIIE (28 days) plus 2.33%, maturing in 2022 (i).	34,035,225	35,045,315
Line of credit with International Finance Corporation and Deutsche Investitions-und Entwicklungsgesellschaft mbH up to USD$30,000,000, at LIBOR (180 days) plus 4.70%, maturing in 2023 (iii).	58,228,446	60,118,216
BANCOMEXT loan for $35,925,492, at TIIE (28 days) plus 2.33%, maturing in 2022 (i).	35,045,353	35,264,616
Corp Banca loan for 1,070,364,637 in Chilean Pesos, at affixed rate of 8.05%, maturing in 2014 (iv).	26,725,708	28,920,957
Corp Banca loan for 950,357,926 in Chilean Pesos, at a fixed rate of 5.20%, maturing in 2014 (iv).	24,216,334	25,723,716
Corp Banca loan for 529,311,540 in Chilean Pesos, at a fixed rate of 5.20%, maturing in 2014 (iv).	13,487,534	14,327,086
Corp Banca loan for 734,064,826 in Chilean Pesos, at a fixed rate of 5.20%, maturing in 2015 (iv).	18,700,612	-
Corp Banca loan for UF 17,126, at a fixed rate of 5.20%, maturing in 2015 (iv).	9,967,528	-
Actinver loan for $40,000,000, collateralized, at TIIE (28 days) plus 2.5%, maturing in 2015 (i).	-	39,782,134
Line of credit with Actinver up to $150,000,000 at a rate TIIE (91días) + 2.50% and TIIE (91días) plus 3.00% maturing in 2015 (ii).	99,516,278	-
BANCOMEXT loan for $35,534,000, at TIIE (91 days) plus 2.25%, maturing in 2023 (i).	34,901,167	-
BANCOMEXT loan for $42,495,000, at TIIE (91 days) plus 2.25%, maturing in 2023 (i).	41,799,234	-
BANCOMEXT loan for $28,340,316, at TIIE (91 days) plus 2.25%, maturing in 2023 (i).	26,805,253	-
BANCOMEXT loan for $27,353,087, at TIIE (91 days) plus 2.25%, maturing in 2023 (i).	27,024,026	-
BANCOMEXT loan for $30,689,500, at TIIE (91 days) plus 2.25%, maturing in 2023 (i).	30,180,083	-

	2013	2012
BANCOMEXT loan for $30,954,000, at TIIE (91 days) plus 2.25%, maturing in 2023 (i).	30,262,870	-
BANCOMEXT loan for $32,625,212, at TIIE (91 days) plus 2.25%, maturing in 2023 (i).	32,085,980	-
Loan with International Finance Corporation and Deutsche Investitions fund Entwicklungsgesellschaft mbH up to USD $6,300,000, at LIBOR (180 days) plus 4.7%, maturing in 2023.(i)	82,316,430	-
Interest payable	10,433,402	9,021,096
Total	2,074,447,394	1,712,239,543
Less: current portion of long-term debt	(107,857,783)	(86,688,414)
Long-term debt	$ 1,966,589,611	$ 1,625,551,129
TIIE (28 days) at period end	3.7950%	4.8475%
TIIE (91 days) at period end	3.7975%	

(i) Quarterly amortization
(ii) Monthly amortization
(iii) Bi-annual amortization
(iv) Principal due at the term of the loan
(v) LIBOR = London Interbank Offered Rate
(vi) The debt was settled in advance during 2013.

Each bank credit agreement provides for certain restrictions, which must be met individually by the subsidiary company that has signed the bank loan. Such restrictions include limiting or generally prohibiting the issuance of interest-bearing liabilities, prohibiting the merger or spin-off with other affiliates (even though they may form part of the same socioeconomic group), prohibiting the granting of loans, collateral, or other fiduciary activities with third parties or its subsidiaries, reducing its share capital, paying dividends, increasing capital in subsidiaries, maintaining minimum amounts of equity and meeting tax obligations.

In addition, each subsidiary that issues debt is generally required to maintain certain financial ratios at specified levels, during the term of the loans. The most significant ratios include: (i) operating income before taxes plus depreciation plus interest expense, divided by interest expense, and (ii) financial leverage, defined as the division of financial liability between equity, among others.

Covenants and financial ratios have been complied with as of December 31, 2013 and 2012.

Where appropriate, the Entity has the opportunity to request changes or waivers, with the prior authorization of the relevant financial institution, in order to permit certain operational objectives of the Entity, when necessary.

The value of assets pledged as collateral for loans is $4,353,646,296 and $3,379,044,195 as of December 31, 2013 and 2012, respectively.

At December 31, 2013, the Entity has available lines of credit, for which amounts had not yet been withdrawn, amounting to $420,644,755 and USD $19,100,000.

At December 31, 2012, the Entity has available lines of credit, for which amounts had not yet been withdrawn, amounting to $171,127,755 and USD$25,400,000.

12. Employee benefits

Short-term employee benefits

	2013	2012
Employee profit sharing (i)	$ 1,097,471	$ 1,095,672
Employee bonus (ii)	-	4,971,620
	$ 1,097,471	$ 6,067,292

(i) Profit sharing is a benefit provided to employees as required by the Mexican Federal Labor Law and is determined as a percentage of the Entity's taxable performance.

(ii) A bonus is provided to top management based on the operational and financial performance of the Entity and is authorized by the Compensation Committee.

Long-term employment benefits

The Entity manages defined benefit plans for employees of its subsidiaries in Mexico called "seniority premiums". Under these plans, employees are entitled to retirement benefits under Article 162 of the Mexican Federal Labor Act in case of death, disability, redundancy or voluntary retirement. The seniority premium is equivalent to twelve days of salary per year of service worked; the wage considered for the calculation cannot be less than the minimum wage in the relevant geographic area, or more than twice the minimum wage. Seniority takes into account all the years of service provided by the employee. In case of voluntary retirement, seniority premiums are granted only if the employee has worked at least fifteen years for the Entity. The Entity does not grant other post-retirement benefits.

The Entity obtains actuarial calculations at each reporting date from an external actuary. The present value of the defined benefit obligation and the current service cost and past service costs were calculated using the projected unit credit method.

The main assumptions used for purposes of the actuarial valuations are as follows:

	Valuation at	
	2013	2012
	%	%
Discount rate	6.75	6.50
Expected wage increase rate	5.50	5.50

Period cost related to seniority premiums as well as a rollforward of the liability at each reporting date are as follows:

	2013	2012
Current service cost	$ 415,176	$ 362,410
Interest expense (i)	62,162	34,724
Actuarial (gains) and losses (ii)	(370,598)	170,932
	106,740	568,066
Balance at the beginning of the year	1,033,442	465,376
Balance at the end of the year	$ 1,140,182	$ 1,033,442

The plans are not funded. The Entity has not determined whether to provide contributions to the plans during the following year.

(i) Interest is presented within financial cost in the statement of income and other comprehensive income.
(ii) Actuarial gains and losses are recognized within other comprehensive income.

Defined contribution plans

Under Mexican legislation, the Entity must make payments equivalent to 2% of its workers' daily integrated salary (ceiling) to a defined contribution plan that is part of the retirement savings system established by Mexican law. The expense was $9,522,895 and $7,694,860 in 2013 and 2012, respectively.

13. Deferred revenue

Deferred revenues from the customer loyalty program "City Premios", which provides guests a certain number of points for each night stay, redeemable for hotel nights, point cards, movie tickets and other products. The Entity applies IFRIC 13 *Customer Loyalty Programs* (IFRIC 13) to account for the program; as such, the Entity values the points at fair value and recognizes the revenues related to the points when related services are provided to customers. The points have an average maturity of two years.

14. Income taxes

The Entity is subject to ISR and, through December 31, 2012, to ISR and IETU.

ISR – The rate was 30% in 2013 and 2012 and as a result of the new 2014 ISR law (2014 Tax Law), the rate will continue at 30% in 2014 and thereafter.

IETU – IETU was eliminated as of 2014; therefore, up to December 31, 2013, this tax was incurred both on revenues and deductions and certain tax credits based on cash flows from each year. The applicable tax rate was 17.5%. As a result of its elimination, the related deferred income taxes were eliminated during 2013.

Until 2013, other subsidiaries that are service providers used to incur principally IETU tax liabilities.

a. Income taxes are as follows:

	2013	2012
ISR:		
Current	$ 33,817,728	$ 19,653,970
Deferred	(20,708,642)	(23,596,495)
	13,109,086	(3,942,525)
IETU:		
Current	4,971,780	8,860,390
Deferred	673,273	639,982
	5,645,053	9,500,372
Total	$ 18,754,139	$ 5,557,847

b. Reconciliation of the statutory and effective income tax rate, expressed as a percentage of the profit before taxes, is as follows:

	2013 %	2012 %
Statutory rate	30	30
Effects of inflation	(17)	(43)
Non-deductible expenses	1	1
Others	(2)	-
Business flat tax	6	30
Effective rate	18	18

c. Main concepts that originate the deferred income taxes balances are:

	2013	2012
Deferred income tax asset:		
Income tax loss	$ 125,781,717	$ 71,974,604
Allowance for doubtful accounts	100,576	211,410
Accrued expenses and other liabilities	13,732,630	9,524,625
Other, net	(51,830)	240,588
Deferred income tax asset	$ 139,563,093	$ 81,951,227
Deferred income tax liability:		
Property, equipment and leasehold improvements	$ (286,603,618)	$ (303,473,577)
Derivative financial instruments	(1,687,292)	(2,420)
Prepaid expenses	(4,672,257)	(3,862,012)
Deferred income tax liability	(292,963,167)	(307,338,009)
Total liability	$ 153,400,074	$ 225,386,782

d. Main concepts that originate the deferred IETU balances are:

	2012
Deferred IETU asset:	
Accounts payable	$ 1,428,818
Payroll and related taxes	1,408,662
Employee benefits	2,452,723
Deferred IETU asset	5,290,203
Deferred IETU liability:	
Accounts receivable	(4,418,509)
Prepaid expenses	(198,421)
Deferred IETU liability	(4,616,930)
Total deferred tax asset	$ 673,273

e. The benefits of restated tax loss carryforwards for which the deferred ISR asset has been partially recognized, can be recovered subject to certain conditions. Expiration dates and restated amounts as of December 31, 2013, are:

Year	Amount
2015	$ 32,566
2016	3,053,506
2017	22,543,178
2018	17,985,396
2019	41,665,614
2020	64,896,524
2021	51,101,015
2022	46,932,161
2023	199,208,325
	$ 447,418,285

f. The tax loss carryforwards that can reduce ISR tax profits of $28,145,895 and $17,241,379 as of December 31, 2013 and 2012, respectively, were not included in the determination of deferred taxes of 2013 and 2012 because the Entity believes it is not more likely than not that it will not generate sufficient taxable income to recover the benefits of such assets.

15. Investment acquisitions

a. ***Non-controlling interests acquired***

- In January 2013, the Entity acquired non-controlling interest in Impulsora Plaza Baja Norte, S. A. de C.V. for $71.5 million. The acquisition resulted in an excess of book value over consideration transferred of $28,390,169.

- The remaining 50% of the subsidiary Rivera del Mar, S. A. de C. V. was acquired in June 2013 for $33,971,999. The acquisition resulted in an excess of book value over consideration transferred of $3,373,008.

- In May 2013, the Entity entered into two contracts for sale and subscription of shares to acquire the non-controlling interest in three subsidiaries, pursuant to contracts for sale and subscription. Immediately prior to the consummation of the public offering (see Note 17), the Entity acquired the minority participation of these companies in exchange for a corresponding equity of the Entity (Roll - Up). Pursuant to contracts for such purchases, it was agreed with each of the partners that they would pay as consideration for their shares the conversion price of the number of shares of the Entity resulting from dividing the value of each of these transactions over the price per share in the public offer, the acquisitions were paid as follows:

- SACB Ventures LLC, acquired the remaining 50% of the non-controlling interest, including Hotel City Express San Jose Costa Rica. The acquisition resulted in an excess of book value over consideration transferred of $27,499,189.

- Operadora Metropol, S. A. de C. V. acquired the remaining 39% of the non-controlling interest, including the Hotel City Express Reforma "El Angel" in Mexico City. The acquisition resulted in an excess of book value over consideration transferred of $22,202,483.

- Promotora Hotelera City Express S. A. P. I. de C. V. acquired the remaining 19% of the non-controlling interest. The acquisition resulted in an excess of book value over consideration transferred of $3,376,605.

- In December 2012, the Entity acquired the remaining 50% of the shares of Administradora de Hoteles Business Class S. A. de C. V. The acquisition resulted in an excess of book value over consideration transferred of $17,031,016.

- In December 2012 the Entity acquired the remaining 50% of the shares of Impulsora Plaza Villa Hermosa, S. A. de C.V. The acquisition resulted in an excess of book value over consideration transferred of $124,340.

b. **Business combinations**

- In May 2013 the Entity acquired 100% of the shares of Eduhoteles, S. A. de C. V. and the corresponding control of the business, for a total price of $72,500,156 paid in cash.

  The fair value of the net assets acquired at the acquisition date are as follows:

Current assets	$ 12,159,593
Fixed assets	66,740,067
Total assets	78,899,660
Current liabilities	$ (6,399,503)
Net assets acquired	$ 72,500,157

16. Financial instruments

a. ***Capital management***

The Entity manages its capital to ensure that all subsidiaries will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balances. The overall strategy of the Entity has not been modified during the reporting periods.

The capital structure of the Entity consists of net debt (loans as detailed in Note 11 offset by cash and bank balances) and equity securities (consisting of capital subscribed and paid, legal reserve, additional paid-in capital subscription and comprehensive income as disclosed in Note 17).

The Entity is not subject to any externally imposed requirement for managing its capital at a consolidated entity level, but at the level of certain subsidiaries, capital requirements exist for loans directly issued by subsidiaries and in which in most cases, Inmobiliaria Hotelera City Express, S. A. de C. V. and/or Hoteles City Express, S. A. de C. V. are joint guarantors.

The Finance Committee is responsible for monitoring and recommending policies, as often as necessary, on risk management of the Entity, primarily through analysis of income and net operating income and interest coverage and debt service rates, as well as its exposure to currency risk and interest rate risk.

Ratios monitored by the Finance Committee are as follows:

	2013	2012
Current portion of long-term debt	$ 107,857,783	$ 86,688,414
Bank loans	1,966,589,611	1,625,551,129
(-) Cash, cash equivalents and restricted cash	(1,687,289,890)	(555,008,607)
Net debt	387,157,504	1,157,230,936

	2013	2012
Stockholder's Equity	5,026,035,369	3,256,961,296
Consolidated operating income	178,566,111	122,938,990
Depreciation	163,662,568	144,498,459
Finance costs	106,241,358	97,480,643
Net operating cash flows (consolidated operating income plus depreciation)	342,228,679	267,437,449
Ratios:		
Net operating cash flows /Finance costs (i)	3.2	2.7
Net debt / Net operating cash flows (ii)	1.1	4.3
Leverage	0.4	0.5

(i) This indicator demonstrates the ability of the Entity to meet its payment obligations or commitments.

(ii) This indicator demonstrates the borrowing capacity of the Entity related to the generation of cash flows.

b. ***Financial instruments categories***

	2013	2012
Financial assets		
Cash, cash equivalents (*) and restricted cash	$ 1,687,289,890	$ 555,008,607
FVTPL (held for trading and derivative financial instruments)	102,357	344,011
Loans and receivables (accounts receivables)	63,183,413	43,325,018
Financial liabilities		
Fair value of derivative financial instruments	10,720,706	262,888
Others		
Accounts payable to suppliers	44,693,159	47,750,622
Long-term debt (including current portion) and accumulated interest at amortized cost	2,074,447,394	1,712,239,543

(*) As of December 31, 2013 and 2012, cash equivalents held for trading, are mainly invested at variable rate on instruments issued by the Mexican Federal Government at variable rates.

c. ***Financial risk management objectives***

The Entity's Corporate Treasury function provides services to the subsidiaries, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Entity through internal risk reports, which analyzes exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Entity seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the recommendations and policies approved by the Finance Committee, which provide guidelines on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Management reports compliance with policies and exposure limits to the Finance Committee on a continuous basis. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

d. ***Market Risk***

The Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, including:

- Interest rate swaps to mitigate the risk of variable interest rates and
- Interest rate option contracts (CAPS).

The market risk exposures are measured on a net basis, given that before entering into derivative financial instruments as a financial hedging strategy, the Entity seeks to naturally hedge its risks through the netting of its exposures from its financial assets and liabilities.

As a result of entering into markets other than Mexico, the Entity´s exposure to exchange rate risk has changed and consequently, the way it manages this risk.

e. ***Foreign currency risk management***

Accounts that generate foreign exchange rate risk are cash, receivables and bank loans, which are in different currencies (mainly USD) from the functional currency of each subsidiary.

These currencies undergo periodic fluctuations relative to the Mexican peso. Therefore, any fluctuation in the value of these currencies (Costa Rican colon, Colombian peso, Chilean peso, and US dollar) against the Mexican peso affects the results, financial position and cash flows of the entities consolidated with Promotora Hotelera City Express, S. A. de C. V. : Pricom Cariari, S. A., Sac Be Ventures Colombia, Hoteles City Express Chile, L.T.D.A. and Sac Be LLC, respectively.

Below is a breakdown of the foreign currency exposure:

	2013	2012
Financial assets in U.S. dollars	9,728,707	3,624,233
Financial liabilities in U.S. dollars	(18,269,002)	(4,686,583)
Net exposure	US$ (8,540,295)	US$ (1,062,350)

Mexican peso exchange rates in effect at the dates of the consolidated statements of financial position and at the date of issuance of the accompanying consolidated financial statements were as follows:

	December 31,		
	2013	2012	February 28, 2014
U. S. Dollar	13.0652	12.9880	13.3066
Chilean peso	40.0500	36.7341	54.5767
Costa Rican colon	38.3775	39.1284	41.0368
Colombian peso	147.1182	136.1433	154.4271

- ***Foreign currency sensitivity analysis***

  At the level of the consolidated financial statements, the Entity is exposed to fluctuations of the U. S. dollar against the Mexican peso with respect to transactions denominated in that currency and to fluctuations in the Costa Rica colons, Colombian peso and the Chilean peso against the Mexican peso with respect to foreign currency translation. With respect to the U.S. dollar, the Entity considers that a reasonable variation between these currencies would be 0.67 and 1.21, Mexican pesos per U. S. dollar in 2013 and 2012, respectively. The above mentioned changes would have increased or decreased the effect on net income of + / - $5,714,736 and + / - $1,285,445 pesos for 2013 and 2012, respectively.

On a consolidated financial statement level, exchange rate risk also includes the effect of investments in subsidiaries with functional currencies in Costa Rica colons, Chilean pesos and Colombian pesos and is reflected in the cumulative translation adjustment as part of other comprehensive income item.

A fluctuation of the Mexican peso against the Costa Rican colon, the Colombian peso and the Chilean peso, would result in total combined changes in stockholders' equity as follows: + / - $552.461 for 2013 and + / - $157,794 for 2012.

f. ***Interest rate risk management***

The Entity is exposed to interest rate risk because subsidiaries borrow funds at both fixed and floating interest rates. The risk is managed by the Entity by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap and interest rate caps contracts.

- ***Interest rate sensitivity analysis***

The sensitivity analyses have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year.

Year	Sensitivity +/-	Variation in interest expense
2013	0.25%	$ 4,740,910
2012	0.50%	4,065,032

- ***Interest rate swap contracts***

Under interest rate swap contracts, the Entity agrees to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the Entity to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract.

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is TIIE. The Entity will settle the difference between the fixed and floating interest rate on a net basis.

g. ***Credit risk management***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Entity. The Entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Entity only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Entity uses other publicly available financial information and its own trading records to rate its major customers. The Entity's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread among approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The Entity does not maintain significant risk exposures with any counterparty or Group of counterparty with similar characteristics. The Entity defines that counterparties that maintain similar characteristics are considered related parties.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Additionally, the Entity is exposed to credit risk for derivative financial instruments. As of December 31, 2013 an amount of $406,137 has been recognized in the consolidated financial position as financial liability.

h. ***Liquidity risk management***

The CFO reports to the CEO and to the Finance Committee, but has the ultimate responsibility for liquidity risk management and has established a framework for the management of the Entity's short-, medium- and long-term funding and liquidity management requirements. The Entity manages liquidity risk by maintaining adequate reserves and borrowing facilities, and by continuously monitoring forecast and actual cash flows to match the maturity profiles of financial assets and liabilities. Note 11 below sets out details of additional undrawn facilities that the Entity has at its disposal to further reduce liquidity risk.

- ***Liquidity and interest risk tables***

The following tables detail the Entity's remaining contractual maturities for its financial liabilities with agreed repayment periods. The tables have been presented based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Entity can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

	1 to 365 days	1 to 5 years	More than 5 years	Total
December 31, 2013				
Non-interest bearing debt	$ 44,693,159	$ -	$ -	$ 44,693,159
Variable and fixed interest rate debt. Weighted average interest rate 6.18%.	221,412,969	890,475,711	1,741,549,066	2,853,437,746
Derivative financial instruments		-	10,720,706	10,720,706
	$ 266,106,128	$ 890,475,711	$ 1,752,269,772	$ 2,908,851,611
December 31, 2012				
Non-interest bearing	$ 47,750,622	$ -	$ -	$ 47,750,622
Variable and fixed interest rate. Weighted average interest rate 7.42%.	200,101,438	967,219,018	1,122,888,179	2,290,208,635
Derivative financial instruments	262,888	-	-	262,888
	$ 248,114,948	$ 967,219,018	$ 1,122,888,179	$ 2,338,222,145

i. ***Fair value measurements on financial instruments***

This note provides information about how the Entity determines the fair values of financial liabilities.

1. <u>Fair value of financial liabilities of the Entity that are measured at fair value on a recurring basis</u>

Some of the financial liabilities of the Entity are valued at fair value at the end of each year. The following table provides information about how the fair values of financial liabilities (including the valuation technique and inputs used) are determined.

Financial liabilities	**Fair Value**		**Fair value hierarchy**	**Technique (s) valuation and main input data**	**Significant unobservable inputs**	**Relationship of n observable input to the fair value**
	December 31, 2013	**December 31, 2012**				
2) Swaps interest rate (see Note 8)	Liabilities (designated as hedging) $10,720,706	Liabilities $262,888	Level 2	Discounted cash flow. The future cash flows are estimated based on the forward interest rates (from the yield curves observable at the end of the reporting period) and contractual interest rates, discounted at a rate that reflects the credit risk several counterparts.	N/A	N/A

j. ***Fair value of financial instruments carried at amortized cost***

Except as detailed in the following table, Management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

	2013		**2012**	
	Carrying amount	**Fair Value**	**Carrying amount**	**Fair Value**
Banking loans and interest	$2,074,447,394	$1,968,345,945	$1,712,239,543	$1,695,708,362

- ***Valuation techniques and assumptions applied for the purposes of measuring fair value***

The fair values of financial assets and financial liabilities (derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis. A discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. Interest rate caps are valued using the Black Scholes formula, which uses variables including the spot value of the underlying asset, maturity date, volatility, price, domestic interest rate and foreign interest rate. Both valuations are Level 2.

- ***Fair value measurements recognized in the consolidated statement of financial position***

Fair value of financial assets and financial liabilities is valuated subsequent to the beginning recognition at fair value and are based on the following hierarchy:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities, in this category are cash, cash equivalents and restricted cash.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs), in this category are the derivative financial instruments assets and liabilities.

17. Stockholder's equity

Common stock at par value as of December 31, 2013 is as follows:

Series	Number of shares
Series A	300
Series B	275,111,159
Total	275,111,459

Common stock at par value as of December 31, 2012 is as follows:

Series	Number of shares
Series A	100
Series B	61,751,337
Total	61,751,437

The capital stock is $3,642,550,334 at December 31, 2013 and consists of common shares, without par value, Series " A" shares corresponding to fixed capital without right of withdrawal and Series "B " shares corresponding to the variable portion , which subscription is unlimited.

The shares of the series "A and B" can be purchased by individuals or corporations, domestic or foreign in all cases in line with the applicable provisions of the Foreign Investment Law. Both series of shares are entitled to one vote and give their holders the same rights and obligations.

a. Under the General Law of Commercial Entities, at least 5% of the net income of the year must be transferred to the legal reserve until the reserve equals 20 % of share capital. The legal reserve may be capitalized but may not be distributed unless the entity is dissolved and must be replenished if it is reduced for any reason.

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

c. During an Ordinary and Extraordinary General Shareholders meeting held on May 22, 2013, the Entity's shareholders approved the initial public offering of primary shares for which the following resolutions were taken:

   - Issuance of a total of 40,989,509 Series B ordinary shares, representing the variable portion of the capital , to be allocated as follows:

     a. 2,172,364 shares to be subscribed for and paid in installments by certain senior officers of the Entity in accordance with the terms of the share subscription agreements.

        The obligation to pay the subscription price is contingent on the Entity meeting certain performance metrics each year over the next few years, as stipulated in the subscription agreements.

b. 4,659,575 shares to be subscribed and paid to external shareholders in exchange for their shares.

c. 34,157,570 shares for subsequent subscription or sale as part of the initial public offering, which was authorized by shareholders.

- In addition, the shareholders approved a three for one stock split of the Entity's outstanding shares of capital stock, by issuing up to 185,254,311 nominal common shares, without par value.

d. On June 13, 2013, the Entity concluded an initial public offering of shares, pursuant to which it placed a total of 71,154,332 shares (the primary component) for a value of $1,577,958,173 plus a premium in capital of $52,459,520 (which includes the net effect of costs of issuance and deferred taxes for $99,506,238). Other offering expenses of $8,136,765 were recognized in results as they did not meet the criterion to be offset against the proceeds from the equity issuance.

e. Fully paid ordinary shares

	Number of shares	Equity in shares	Additional paid in capital in shares
Balance at December 31, 2012	185,254,311	$ 716,942,825	$ 1,074,219,173
Capitalization of additional paid in capital	-	1,074,219,173	(1,074,219,173)
Issuance of shares under the stock option to employees	6,517,092	3,192,789	-
Increased capital for share exchange with external shareholders	12,185,724	270,237,374	-
Capital increase in initial public offering	71,154,332	1,577,958,173	-
Direct costs for initial public offering	-	-	(142,151,769)
Income taxes related to the direct costs for initial public offering	-	-	42,645,531
Additional paid in capital	-	-	151,965,758
Balances at December 31, 2013	275,111,459	$ 3,642,550,334	$ 52,459,520

Ordinary shares are fully paid and have a nominal value of $1 and grant one vote per share and the right to receive dividends.

The fair value of the shares issued for consulting services was determined based on the market rate for similar consulting services.

f. Share subscription agreements

Certain of the Entity's senior officers executed on May 15, 2013 share subscription agreements to acquire the Entity's shares (the "Share Subscription Agreements"). Pursuant to such Share Subscription Agreements, these officers have subscribed to and partially paid for an aggregate total of 6,517,092 of the Entity shares, which have been deposited in a management trust. The obligation to pay the remaining portion of the subscription price is contingent upon the Entity meeting certain performance metrics each year for a four year period following the date of the initial offering. These shares may be redeemed by the Entity at any time for an amount equal to the subscription price that would have been paid up until the time of redemption, even if the performance metrics established in the relevant Share Subscription Agreements have not been met. As long as the shares have not been paid in full, they will be voted in the same manner as the majority of the other shares of the Entity, and once the subscriptions are paid in full, they will be released from such voting trust and can be freely voted. The relevant officers have entered into loan agreements to cover payments related to the subscription and pledged the relevant shares as security for payment. The shares are to be released from the pledge upon full payment of the amounts due under the relevant loan agreements.

g. The balances of the stockholders' equity tax accounts as of December 31, 2013 and 2012 are:

	2013	2012
Contributed capital account	$ 4,192,313,527	$ 2,176,734,089
Net tax income account (CUFIN)	15,847,204	15,244,360
Total	$ 4,208,160,731	$ 2,191,978,449

18. Other comprehensive income

	2013	2012
Net actuarial gains and losses	$ 556,027	$ 80,351
Currency translation effect	(11,816,476)	1,106,867
Valuation effects of hedging instruments	(7,504,494)	-
	$ (18,764,943)	$ 1,187,218

a. ***Net actuarial gains and losses***

	2013	2012
Balance at the beginning of the year	$ 80,351	$ 221,772
Actuarial gains and losses for employee benefits and deferred tax	481,777	(188,121)
Actuarial gains and losses for employee benefits of non-controlling interest	(6,101)	46,700
Balance at end of the year	$ 556,027	$ 80,351

b. ***Currency translation effect***

	2013	2012
Balance at the beginning of the year	$ 1,106,867	$ 2,989,667
Effect of translation of foreign operations	(9,478,983)	(3,765,600)
Effect of translation of foreign operations non-controlling interest	(3,444,360)	1,882,800
Balance at end of the year	$ (11,816,476)	$ 1,106,867

c. ***Valuation effects of hedging instruments***

	2013
Balance at the beginning of the year	$ -
Swap interest rate	10,720,706
Income taxes effect of hedging instruments	(3,216,212)
Balance at end of the year	$ 7,504,494

19. Non-controlling interest

	2013	2012
Balance at the beginning of the year	$ 812,909,243	$ 730,275,934
Participation in other comprehensive income	8,218,746	(327,957)
Acquisition of non-controlling interest (Note 15)	(313,087,882)	(14,844,644)
Contributions from non-controlling interest (Note 15)	203,906,214	104,668,512
Equity reduction and dividends paid	(7,982,000)	(6,862,602)
Balance at end of the year	$ 703,964,321	$ 812,909,243

20. Earnings per share

The Entity did not have discontinued operations or any potentially dilutive instruments during the presented periods. Accordingly, basic and diluted earnings per share are equal.

	2013 Cents per share	2012 Cents per share
Basic and diluted earnings per share	$ 0.3087	$ 0.1295

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	2013	2012
Income for the year attributable to owners of the Entity	$ 72,575,256	$ 23,990,746
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	235,105,984	185,254,311

21. Hotel operating costs and expenses

	2013	2012
Room expenses	$ 154,660,567	$ 131,371,731
Payroll	84,251,923	86,332,663
Administrative and general expenses	106,031,135	82,942,020
Promotional and sales expenses	33,920,536	29,186,232
Utilities	64,270,998	55,507,612
Maintenance expenses	51,410,254	43,454,710
Property taxes	6,192,153	4,588,553
Insurance	3,789,124	4,117,230
Corporate expenses	13,928,658	16,910,405
Rent expense	46,379,153	45,256,089
Others	4,870,054	2,686,091
Total	$ 569,704,555	$ 502,353,336

22. Selling and administrative expenses

	2013	2012
Payroll	$ 91,948,441	$ 87,972,065
Agencies commissions	7,769,752	5,006,731
Legal and professional fees	11,680,522	6,444,937
Travel expenses	5,781,121	2,417,761
Advertising	28,774,704	20,054,178
Equipment rental	7,212,308	5,333,238
Phones and communication	3,502,763	1,765,727
Maintenance	5,607,654	1,538,871
Rental of corporate office	9,331,261	6,495,467
Others	5,565,835	10,511,869
Total	$ 177,174,361	$ 147,540,835

23. Other (income) expenses

During 2013, the Entity partially recovered the 898 tons of steel that had been reserved in 2011; therefore, other income for the year reflects the recoverability of such transactions and its related storage expenses. In 2012, there were insurance recoveries, payment of fines and surcharges related to the payment of taxes, losses on sales of fixed assets, among others.

24. Related party transactions

Balances and transactions between the Entity and its subsidiaries, which are related parties of the Entity, have been eliminated in consolidation and are not disclosed in this note.

a. ***Loans and interest from related parties***

	2013	2012
Loans from International Finance Corporation	$ 88,616,864	$ 61,016,241

Loans accrue interest at interest rates comparable to commercial rates. The loans are guaranteed by certain lands and properties.

b. ***Compensation of key management personnel***

During the year, the remuneration to Entity's management and other key management members was as follows:

	2013	2012
Short-term benefits	$ 37,101,255	$ 43,291,692

The remuneration of the Entity's management and key executives is determined by the Compensation Committee based on the performance of individuals, their responsibility and decision-making responsibilities and considering as a reference, studies on market trends, as identified by specialized consulting personnel.

25. Leases – the Entity as a lessee

The Entity has entered into operating lease agreements for certain hotel properties. Lease payments are determined based the total investment in the project, adjustable annually for inflation; certain leases also contain certain variable payments based on the gross revenues generated by the hotel property. Lease payments are denominated in local currency. Contracts are valid for 15 years from the date of opening, and can be extended by a single term of five years.

For the years ended December 31, 2013 and 2012, rental expense was:

- Payments recognized as expenses

	2013	2012
Minimum lease payments	$ 46,665,736	$ 44,165,478
Contingent lease payments	9,044,678	7,586,078
	$ 55,710,414	$ 51,751,556

- Non-cancellable operating lease commitments

	2013	2012
1 year or less	$ 44,282,807	$ 42,393,973
More than 1 and up to 5 years	208,415,751	192,310,945
More than 5 years	252,695,478	216,414,174
	$ 505,394,036	$ 451,119,092

26. Segments

The operating segment information is presented based on the manner in which the Chief Executive Officer and the Board of Directors assesses economic performance and operating results of the Entity as well as the manner in which they assign resources to each segment. As a result of consolidation of the subsidiaries controlled by the Entity, intercompany transactions between the operating segment of the Entity are eliminated, which are shown in a separate column within the segment information below.

An operating segment is a component of an Entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the Management and the Board of Directors with respect to both performance evaluation and resource allocation, and for which discrete financial information is available. The Entity's reportable segments below are based on its operating segments.

For the year ended December 31, 2013

Statement of income and other comprehensive income data:	Hotel operation	Hotel management	Total	Eliminations	Total Consolidated
Total revenues	$1,057,859,355	$ 270,545,433	$1,328,404,788	$ (224,449,187)	$1,103,955,601
Costs and expenses (excluding depreciation)	(741,260,584)	(230,067,520)	(971,328,104)	224,449,187	(746,878,916)
Income before other non-recurring operating expenses and depreciation:	316,598,771	40,477,913	357,076,684	-	357,076,685
Other expenses and expenses associated with opening of new hotels	(14,848,005)	-	(14,848,005)	-	(14,848,005)
Income before depreciation:	301,750,766	40,477,913	342,228,679	-	342,228,679
Depreciation	(163,662,568)	-	(163,662,568)	-	(163,662,568)
Operating income	$ 138,088,198	$ 40,477,913	$ 178,566,111	$ -	$ 178,566,111

For the year ended December 31, 2012

Statement of income and other comprehensive income data:	Hotel operation	Hotel management	Total	Eliminations	Total Consolidated
Total revenues	$ 899,353,805	$ 218,116,073	$1,117,469,878	$ (185,266,586)	$ 932,203,292
Costs and expenses (excluding depreciation)	(687,619,922)	(147,540,835)	(835,160,757)	185,266,586	(649,894,171)
Income before other non-recurring operating expenses and depreciation:	211,733,883	70,575,238	282,309,121	-	282,309,121
Other expenses and expenses associated with opening of new hotels	(14,871,672)	-	(14,871,672)	-	(14,871,672)
Income before depreciation:	196,862,211	70,575,238	267,437,449	-	267,437,449
Depreciation	(144,498,459)	-	(144,498,459)	-	(144,498,459)
Operating income	$ 52,363,752	$ 70,575,238	$ 122,938,990	$ -	$ 122,938,990

27. Commitments

As of December 31, 2013, the Entity has commitments for the acquisition and construction of property, as follows:

a) Construction of buildings: $33,318,033

b) Acquisition of property: $141,019,803

28. Authorization to issue the financial statements

The accompanying consolidated financial statements were authorized for issuance on February 28, 2014, by Ing. Luis Eduardo Barrios Sánchez, CEO, Lic. Roberto Palacios Prieto, CFO and C. P. Juan Carlos Pioquinto Vázquez, Director of Administration, and consequently do not reflect events after this date. These consolidated financial statements are subject to the approval of the Entity's, Board of Directors and shareholders at the ordinary shareholders' meeting, where they may be modified, in accordance with the provisions of the General Law of Commercial Entities.

* * * * * *

Independent Auditors' Report to the Board of Directors and Stockholders of Hoteles City Express, S.A.P.I. de C.V.

We have audited the accompanying consolidated financial statements of Hoteles City Express, S. A. P. I. de C. V. and its subsidiaries (the Entity), which comprise the consolidated statements of financial position as of December 31, 2012, 2011 and 2010 and January 1, 2010 (transition date), and the consolidated statements of profit and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2012, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hoteles City Express, S. A. P. I. de C. V. and its subsidiaries as of December 31, 2012, 2011 and 2010 and January 1, 2010 (transition date), and their financial performance and cash flows for the years ended December 31, 2012, 2011 and 2010, in accordance with International Financial Reporting Standards.

Other Matter

We draw attention to Note 2 to the consolidated financial statements, indicating that the Entity adopted International Financial Reporting Standards on December 31, 2012. The effects of the transition to International Financial Reporting Standards, and the differences on amounts previously reported under Mexican Financial Reporting Standards are presented in Note 29.

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

/s/ Juan Antonio Rodríguez Espínola

C. P. C. Juan Antonio Rodríguez Espínola

April 5th, 2013

Hoteles City Express, S.A.P.I. de C.V. and Subsidiaries

Consolidated statements of financial position

As of December 31, 2012, 2011 and 2010 and January 1, 2010 (transition date)
(In Mexican pesos)

Assets	**Note**	**2012**	**2011**	**2010**	**January 1, 2010**
Current assets:					
Cash, cash equivalents and restricted cash	**6**	$ 555,008,607	$ 571,182,858	$ 896,108,215	$ 227,174,000
Trade receivables, net	**7**	43,325,018	32,198,982	22,298,564	22,944,329
Recoverable taxes – mainly value-added tax		121,930,128	85,093,736	37,964,171	35,961,121
Prepaid expenses	**8**	36,689,818	37,915,713	26,116,745	22,003,872
Total current assets		756,953,571	726,391,289	982,487,695	308,083,322
Investment in a Trust	**10**	-	-	19,987,453	18,522,688
Property, equipment and leasehold improvements	**11**	4,494,785,837	3,881,235,844	3,097,394,210	2,821,248,127
Guarantee deposits		2,897,807	2,396,708	1,734,778	1,703,079
Other assets	**12**	108,122,729	8,681,919	-	1,570,227
Derivative financial instruments	**9**	344,011	2,700,072	2,195,695	1,698,120
Total assets		$ 5,363,103,955	$ 4,621,405,832	$ 4,103,799,831	$3,152,825,563
Liabilities and equity					
Current liabilities:					
Bank loans and current portion of long-term debt	**13**	$ 86,688,414	$ 55,844,496	$ 55,893,714	$ 42,032,479
Trade accounts payable		47,750,622	38,410,803	25,770,082	27,793,879
Other taxes, accrued expenses and other liabilities		85,836,786	31,828,242	27,263,005	18,579,899
Derivative financial instruments	**9**	262,888	1,183,610	2,380,360	3,353,946
Income tax and business flat tax		10,387,418	8,349,738	7,159,340	4,250,527
Direct employee benefits	**14**	6,067,292	4,871,098	992,085	6,226,474
Total current liabilities		236,993,420	140,487,987	119,458,586	102,237,204
Long-term debt	**13**	1,625,551,129	1,049,320,446	684,333,322	606,920,182
Deferred revenue	**15**	17,851,159	13,234,170	9,056,951	9,578,542
Employee benefits	**14**	1,033,442	465,376	300,346	347,995
Deferred income tax	**16**	224,713,509	248,381,035	260,846,596	293,152,219
Total liabilities		2,106,142,659	1,451,889,014	1,073,995,801	1,012,236,142
Equity	**19**				
Equity attributable to owners of the Entity:					
Issued capital		716,942,825	716,942,825	716,942,825	542,400,676
Additional paid-in capital		1,074,219,173	1,074,219,173	1,074,219,173	400,254,944
Retained earnings		651,702,837	644,867,447	623,370,133	658,484,008
Accumulated other comprehensive income		1,187,218	3,211,439	138,981	-
Total equity attributable to owners of the Entity		2,444,052,053	2,439,240,884	2,414,671,112	1,601,139,628
Non-controlling interests		812,909,243	730,275,934	615,132,918	539,449,793
Total equity		3,256,961,296	3,169,516,818	3,029,804,030	2,140,589,421
Total liabilities and equity		$ 5,363,103,955	$ 4,621,405,832	$4,103,799,831	$3,152,825,563

See accompanying notes to consolidated financial statements.

Hoteles City Express, S.A.P.I. de C.V. and Subsidiaries

Consolidated statements of income and other comprehensive income

For the years ended December 31, 2012, 2011 and 2010
(In Mexican pesos, except per share data)

	Note	2012	2011	2010
Revenues from hotel operation		$ 890,715,698	$ 686,767,112	$ 573,913,926
Revenues from hotel management		41,487,594	28,280,860	29,440,874
Total	26	932,203,292	715,047,972	603,354,800
Hotel operating costs and expenses	21	502,353,336	409,821,040	325,682,257
Selling and administrative expenses	22	147,540,835	113,155,007	103,070,435
Depreciation		144,498,459	107,750,834	89,248,232
Cost and expenses		794,392,630	630,726,881	518,000,924
Expenses associated with opening of new hotels		12,277,585	13,527,351	6,506,276
Other expenses	23	2,594,087	2,380,120	9,809
Consolidated operating profit		122,938,990	68,413,620	78,837,791
Finance costs		(97,480,643)	(81,348,615)	(68,050,430)
Finance income		17,264,610	13,185,974	6,218,879
Exchange result, net		(10,137,482)	14,794,682	(4,936,131)
Effects of valuation of financial instruments		(1,435,339)	1,701,127	1,471,161
		(91,788,854)	(51,666,832)	(65,296,521)
Profit before tax		31,150,136	16,746,788	13,541,270
Income tax expense	16	5,557,847	6,743,846	1,203,438
Consolidated net profit		25,592,289	10,002,942	12,337,832
Other comprehensive income, net of income tax:				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations		(3,765,600)	5,979,335	-
Items that may not be reclassified subsequently to profit or loss:				
Net actuarial (gain) loss		(170,932)	113,634	222,194
Deferred tax effects of net actuarial (gain) loss from employee benefits		(17,189)	32,568	(66,658)
Total other comprehensive income		(3,953,721)	6,125,537	155,536
Total consolidated comprehensive income		$ 21,638,568	$ 16,128,479	$ 12,493,368
Profit for the year attributable to:				
Owners of the Entity		$ 23,990,746	$ 21,497,314	$ 9,744,255
Non-controlling interests		1,601,543	(11,494,372)	2,593,577
		$ 25,592,289	$ 10,002,942	$ 12,337,832
Total consolidated comprehensive income for the year attributable to:				
Owners of the Entity		$ 21,966,525	$ 24,569,772	$ 9,883,236
Non-controlling interests		(327,957)	(8,441,293)	2,610,132
		$ 21,638,568	$ 16,128,479	$ 12,493,368
Basic and diluted profit per share	20	$ 0.3885	$ 0.3481	$ 0.1926

See accompanying notes to consolidated financial statements.

Hoteles City Express, S.A.P.I. de C.V. and Subsidiaries

Consolidated statements of changes in Stockholders' equity

For the years ended December 31, 2012, 2011 and 2010
(In Mexican pesos)

	Note	Capital stock	Additional paid-in capital	Retained earnings	Net actuarial gain (loss)	Exchange differences on translating foreign operations	Equity attributable to owners of the parent	Non-controlling interests	Total
Balance at January 1, 2010		$ 542,400,676	$ 400,254,944	$ 658,484,008	$ -	$ -	$ 1,601,139,628	$ 539,449,793	$ 2,140,589,421
Issuance of ordinary shares		174,542,149	673,964,229	-	-	-	848,506,378	-	848,506,378
Acquisitions of non-controlling interests	17	-	-	(44,858,130)	-	-	(44,858,130)	(43,946,124)	(88,804,254)
Contributions of non-controlling interests								117,019,117	117,019,117
Profit and other comprehensive income for the year		-	-	9,744,255	138,981	-	9,883,236	2,610,132	12,493,368
Balance at December 31, 2010		716,942,825	1,074,219,173	623,370,133	138,981	-	2,414,671,112	615,132,918	3,029,804,030
Increase in non-controlling interests from exchange of assets	17	-	-	-	-	-	-	10,964,330	10,964,330
Contributions of non-controlling interests		-	-	-	-	-	-	112,619,979	112,619,979
Profit and other comprehensive income for the year		-	-	21,497,314	82,791	2,989,667	24,569,772	(8,441,293)	16,128,479
Balance at December 31, 2011		716,942,825	1,074,219,173	644,867,447	221,772	2,989,667	2,439,240,884	730,275,934	3,169,516,818
Acquisitions of non-controlling interests	17	-	-	(17,155,356)	-	-	(17,155,356)	(14,844,644)	(32,000,000)
Contributions of non-controlling interests		-	-	-	-	-	-	104,668,512	104,668,512
Equity reductions		-	-	-	-	-	-	(4,511,348)	(4,511,348)
Payment of dividends		-	-	-	-	-	-	(2,351,254)	(2,351,254)
Profit and other comprehensive income for the year		-	-	23,990,746	(141,421)	(1,882,800)	21,966,525	(327,957)	21,638,568
Balance at December 31, 2012		$ 716,942,825	$ 1,074,219,173	$ 651,702,837	$ 80,351	$ 1,106,867	$ 2,444,052,053	$ 812,909,243	$ 3,256,961,296

See accompanying notes to consolidated financial statements.

Hoteles City Express, S.A.P.I. de C.V. and Subsidiaries

Consolidated statements of cash flows

For the years ended December 31, 2012, 2011 and 2010
(In Mexican pesos)

	2012	2011	2010
Cash flows from operating activities			
Profit before tax	$ 31,150,136	$ 16,746,788	$ 13,541,270
Adjustments for:			
Depreciation	144,498,459	107,750,834	89,248,232
Loss (gain) on disposal of equipment	23,673,031	4,632,316	(4,984,361)
Finance income	(17,264,610)	(13,185,974)	(6,218,879)
Purchase gain on business acquisition		(3,184,753)	
Gain on exchange of assets		(11,478,977)	
Finance costs	97,480,643	81,348,615	68,050,430
(Gain) / loss on valuation of financial instruments	1,435,339	(1,701,127)	(1,471,161)
Unrealized foreign currency fluctuations	(1,105,600)	9,628,998	(3,991,484)
	279,867,398	190,556,720	154,174,047
Trade receivables and recoverable tax	(47,962,428)	(57,029,983)	(1,357,285)
Prepaid expenses	1,225,895	(11,798,968)	(4,112,873)
Guarantee deposits	(501,099)	(661,930)	(31,699)
Trade and other payables	9,339,819	12,640,721	(2,023,797)
Other taxes, deferred revenue, accrued expenses and other liabilities	52,751,786	13,804,316	11,169,241
Employee benefits	1,764,260	4,044,043	(5,282,038)
Income tax and Business Flat Tax paid	(27,187,692)	(17,986,442)	(19,394,937)
Net cash flows from operating activities	269,297,939	133,568,477	133,140,659
Investing activities:			
Payments for property, equipment and leasehold improvements	(776,146,453)	(766,671,796)	(380,441,641)
Proceeds from sale of property, equipment and leasehold improvements			33,272,434
Net cash outflow on acquisition of subsidiaries	-	(27,915,262)	-
Net cash outflow on exchange of assets		(71,957,181)	
Net cash outflow on acquisition of investment in trust	-	-	(1,464,765)
Other assets	(99,440,810)	(8,681,919)	1,570,227
Finance income received	17,264,610	13,185,974	6,218,879
Net cash flow used in investing activities	(858,322,653)	(862,040,184)	(340,844,866)

	2012	2011	2010
Financing activities:			
Proceeds from issuance of equity instruments of the Company	-	-	848,506,378
Proceeds from contributions received from non-controlling interests	104,668,512	123,584,309	103,526,117
Reductions in contributions received from non-controlling interests	(4,511,348)	-	-
Payment of dividends of non-controlling interests	(2,351,254)	-	-
Finance costs paid	(93,011,311)	(80,807,236)	(64,259,685)
Proceeds from long-term borrowings	1,329,881,048	528,311,849	130,177,605
Repayment of borrowings	(726,108,864)	(173,521,907)	(38,331,532)
Payments to acquire non-controlling interests	(32,000,000)	-	(108,720,000)
Net cash flows from financing activities	576,566,783	397,567,015	870,898,883
Net increase (decrease) in cash, cash equivalents and restricted cash	(12,457,931)	(330,904,692)	663,194,676
Cash, cash equivalents and restricted cash at the beginning of the year	571,182,858	896,108,215	227,174,000
Effects of exchange rate changes on the balance of cash held in foreign currencies and effects of balances of foreign operations	(3,716,320)	5,979,335	5,739,539
Cash, cash equivalents and restricted cash at the end of the year	$ 555,008,607	$ 571,182,858	$ 896,108,215
Transactions that did not require cash flow			
Exchange of assets involving Investment in trust	$ -	$ 19,987,453	$ -
Non-cash contributions from non-controlling interests	-	-	13,493,000
Acquisition of property, equipment and leasehold improvements on account	5,575,031	15,016,815	-

See accompanying notes to consolidated financial statements.

1. General information

Hoteles City Express, S.A.P.I. de C.V. and Subsidiaries (the "Entity") are primarily engaged in the ownership, operation and management of hotels using the brand names Hoteles City Express, City Suites and City Junior. Its activities include structuring hotel projects, overseeing the development of hotels and real estate, management, marketing, franchising, maintenance, organization of properties in the hotel industry, as well as providing hotel construction and technical, administrative and /or specialized services either directly or through third parties.

At December 31, 2012, 2011 and 2010 rooms operated, under the trade names of the Entity, amounted to 8,095, 6,973 and 5,562, of which 1,715, 1,470 and 1,371, were for administered hotels and hotels operated as a franchise.

One of the subsidiaries of the Entity has entered into various executive management services agreements for development projects and for supervision, administration and franchise services, with all subsidiaries of the Entity that act as hotel operators. As consideration, the subsidiary receives both a fixed fee and a variable fee, based on the amount of investment associated with the development and commencement of operation of hotel units and the related hotel revenues, as well as an incentive fee relating to operating income for the use of the hotel brand name and reservation system.

During 2012, 2011 and 2010, new hotels were developed and completed, the number of rooms available increased, land was acquired, new projects with other partners were started and new strategies to continue to increase market penetration and occupancy of hotels were developed. During 2012 the Entity began operating 9 hotels, of which 2 are operated under our managed hotels model. During 2011, the Entity began operating 12 hotels, of which 2 are operated under our managed hotels model; likewise, in 2010, the Entity began operations in 5 hotels.

The business address is Montes Urales #715, second floor, Delegación Miguel Hidalgo, México, Distrito Federal Mexico, 11000.

2. Adoption of International Financial Reporting Standards

On January 1, 2012, the Entity adopted International Financial Reporting Standards ("IFRS"), based on the standards and interpretations issued by the International Accounting Standards Board ("IASB"), in effect at December 31, 2012. The Entity's date of transition is January 1, 2010. As part of its adoption, the Entity applied IFRS 1, *First-time Adoption of International Financial Reporting Standards*.

Transition to IFRS

The consolidated financial statements at December 31, 2011 and 2010 and for the years the ended were previously prepared in accordance with Mexican Financial Reporting Standards ("MFRS"), which differ in certain respects from IFRS. Such financial statements have been modified to reflect the adoption of IFRS as of the date of transition.

Reconciliations and descriptions of the effects of the transition from MFRS to IFRS on the consolidated statements of financial position and comprehensive income are explained in Note 29.

3. Application of new and revised International Financial Reporting Standards (IFRSs)

i. ***Amendments issued but not yet effective and applied in advance of the effective date***

The following amendments to IFRSs have been applied in advance in the current year and have affected the amounts reported in the accompanying consolidated financial statements.

IAS 1 *Presentation of financial statements* - The Entity has applied the amendments to International Accounting Standard ("IAS") 1, *Presentation of Items of Other Comprehensive Income*, in advance of the effective date (annual periods beginning on or after 1 July 2012). The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively to all periods presented.

Additionally, the Entity has applied the amendments to IAS 1 as part of the 2009 – 2011 Annual Improvements to IFRS cycle.

IAS 1 requires an entity that changes accounting policies, corrects an error or reclassifies items, to do so retrospectively and present a third statement of financial position as of the beginning of the earliest period presented. The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position; the amendments also clarify that the related notes are not required to accompany the third statement of financial position. There were no changes in the Entity's accounting policies for the periods presented in the accompanying consolidated financial statements.

IAS 19 (revised 2011), *Employee Benefits* - the Entity has applied, in advance, the modifications to IAS 19. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net – interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five Standards are described below.

IFRS 10 replaces the parts of IAS 27, *Consolidated and Separate Financial Statements*, that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31, *Interests in Joint Ventures*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*, will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportional consolidation.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

ii. ***New and revised IFRSs in issue but not yet effective***

The Entity has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9, *Financial Instruments* (3)
IFRS 13, *Fair Value Measurement* (1)
Amendments to IFRS 7 Disclosures – *Offsetting Financial Assets and Financial Liabilities* (1)
Amendments to IFRS 9 and IFRS 7 *Mandatory Effective Date of IFRS 9 and Transition Disclosures* (3)
Amendments to IFRS 10, IFRS 11, *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (1)
Amendments to IAS 32, *Offsetting Financial Assets and Financial Liabilities* (2)
Amendments to IFRSs Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS 1 (1)

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.

4. Significant accounting policies

The accompanying consolidated financial statements comply with IFRS issued by the IASB. The significant accounting policies followed by the Entity are as follows:

a. ***Basis of measurement***

The consolidated financial statements have generally been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value, as explained in the accounting policies below.

i. Historical cost

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

ii. Fair value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date.

Additionally, as part of the transition to IFRS, certain of the Entity's fixed assets were measured at their revalued amount under MFRS, while others were measured at fair value as of the date of transition to IFRS, both measurements representing the assets initial "deemed cost", as permitted by IFRS 1.

b. ***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of Hoteles City Express, S.A.P.I. de C.V. and the entities it controls (its subsidiaries). Control is achieved where the Entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The shareholding in the share capital of those entities is as follows:

Company	Shareholding percentage	Activity
Inmobiliaria Hotelera City Express, S.A. de C.V.	100	Holding of companies located in Mexico.
Operadora de Hoteles City Express, S.A. de C.V.	100	Provides management, development, marketing and franchise services.
Operadora de Hoteles City Internacional, S.A. de C.V.	100	Provides management, development, marketing and franchise services, mainly in hotels located overseas.
Servicios Comerciales y Promoción de Hoteles, S.A. de C.V.	100	Provides corporate services
Promotora Hotelera City Express, S.A. de C.V.	100	Holding of companies located overseas, with a 50% investment in Sac Be Ventures, LLC and a 100% investment in Hoteles City Express Chile, L.T.D.A., which holds a 50% investment in Inversiones HCP, S.A.

Certain of the entities above consolidate their full or partial interests in other subholdings. The table below presents detail of total comprehensive income attributable to the non-controlling interests in those subholdings as well as their cumulative balances as of the dates thereon:

	Total comprehensive income attributable to non-controlling interests			Accumulated balances of non-controlling interests		
	2012	2011	2010	2012	2011	2010
Inmobiliaria Hotelera City Express, S.A. de C.V.	$ 6,832,683	$ (6,657,162)	$ 2,610,132	$ 692,558,728	$ 683,941,086	$ 615,132,918
Promotora Hotelera City Express, S.A. de C.V.	(7,160,640)	(1,784,131)	-	120,350,515	46,334,848	-
Total	$ (327,957)	$ (8,441,293)	$ 2,610,132	$ 812,909,243	$ 730,275,934	$ 615,132,918

All intra-group transactions, balances, income and expenses are eliminated in full in consolidation.

Certain investments in entities in which the Entity has a 50% shareholding are consolidated in these financial statements, as the Entity has concluded that it exercises control over the relevant activities of those entities that generate the variable returns of such investments (see Note 5). Certain detail of the non-controlling interests of those entities is detailed in the table above.

Income and expenses of subsidiaries acquired or disposed during the period are included in the consolidated interim statement of profit and other comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The accounting policies of subsidiaries are modified, where necessary, to align them to the Entity's accounting policies.

Changes in the Entity's ownership interests in existing subsidiaries

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

When the Entity loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, *Financial Instruments: Recognition and Measurement*, or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

c. ***Cash and cash equivalents***

Cash comprises cash on hand and demand deposits. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, generally, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents. Cash is stated at nominal value and cash equivalents are stated at fair value with fluctuations in value recognized through finance income or expense.

d. ***Financial assets***

Financial assets are recognized when the Entity becomes a party to the contractual provisions of the instrument.

Financial assets are recorded initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of a financial asset (other than financial assets measured at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial asset or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss. During these periods in the accompanying consolidated financial statements, the Entity only had financial assets classified as FVTPL and loans and accounts receivable.

- Financial assets at FVTPL

  Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. The Entity has not designated any assets as at FVTPL but does hold financial assets for trading purposes. These assets are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'effects of valuation of financials instruments' line item in the statement of profit and other comprehensive income.

- Loans and receivables

  Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. However, as the Entity's receivables mainly consist of short-term receivables, interest income is not recognized as it is considered immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Entity's past experience of collecting payments or an increase in the number of delayed payments in the portfolio past the maximum credit period.

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

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

Derecognition of financial assets

The Entity derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

e. ***Other assets***

Other assets principally represent cash disbursements made to acquire assets that will meet the definition of property and equipment, but are presented as other assets as title to the property has not been transferred to the Entity. Once the Entity settles the acquisition of the asset, it is probable that the economic benefits associated with the asset will flow to the entity, the cost can be measured reliably and legal title has been transferred to the Entity, the amount will be reclassified from other assets.

f. ***Property, equipment and leasehold improvements***

As of January 1, 2010, certain property, equipment and leasehold improvements of the Entity were measured at their revalued amount under MFRS, while others were measured at fair value as of the date of transition to IFRS, both measurements representing the assets initial “deemed cost”, as permitted by IFRS 1. Acquisitions subsequent to that date are initially recorded at acquisition cost. All assets are subsequently carried at their cost less accumulated depreciation and impairment losses, if any. Depreciation is computed using the straight-line method based on the useful life of assets, based on their significant components and considering the residual value of each component. The only component in which the Entity determined that there is a residual value is with respect to building structures, represented by 56.32% of the total value of the component. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, and the effect of any changes in the estimate recorded is recognized on a prospective basis.

The average depreciation rates of property, equipment and leasehold improvements are as follows:

Buildings	1.43-1.60%
Operating equipment	16.7%
Minor equipment	12.0%
Computers	33.3%
Furniture and equipment	10.0%
Leaseholds improvements	20.0%
Vehicles	20.0%

Leasehold improvements are amortized over the shorter of their useful lives and the lease term.

g. ***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

The Entity capitalizes borrowing costs during construction of new hotels, as well as during major remodeling of existing hotels.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

h. ***Impairment of long-lived assets in use***

In the presence of any indicators of impairment (operating losses, negative cash flows, projected losses, among others), which indicate that the carrying value of a long-lived asset may not be recoverable, the Entity reviews such carrying value against the recoverable value of the asset. Recoverable value is the greater of the present value of future net cash flows or fair value less costs to sell the asset. The asset is reduced to its recoverable value when that value is less than the asset's carrying value.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

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

i. ***Financial liabilities and equity instruments***

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

Financial liabilities are initially valued at fair value. Transaction costs that are directly attributable to the issue of financial liabilities (other than financial liabilities at fair value through profit or loss) are deducted from the fair value of financial liabilities at initial recognition. Transaction costs directly attributable to the issue of financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

- Classification as debt or equity

  Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

- Equity instruments

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

- Financial liabilities

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

- Financial liabilities at FVTPL

  A financial liability at fair value through profit or loss is classified as held for trading or is designated as fair value through profit or loss. The Entity has not designated any liabilities as at FVTPL but does hold financial liabilities for trading purposes.

  Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'effects of valuation of financial instruments' line item in the statement of profit and other comprehensive income.

- Other financial liabilities

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

  The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

- Derecognition of financial liabilities

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

j. ***Income tax***

Income tax expense represents the sum of the current income tax and deferred income tax.

- Current income tax

  The tax currently payable is generally based on taxable profit for the year or and cash flows with respect to the Mexican Business Flat Tax, or "IETU" for certain Mexican entities (see below). Taxable profit differs from profit as reported in the consolidated statement of profit and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Entity's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

  The foreign subsidiaries calculate income tax on their individual results, according to the regulations of each country.

  Pricom Cariari, S. A. - Costa Rica: is subject to an income tax of 30% according to the tax laws of Costa Rica.

Sac Be Ventures Colombia, S. A. S. - Colombia: is subject to income tax of 25% beginning January 1, 2013. During the years ended December 31, 2012 and 2011, the Colombian operations did not generate income tax, but were subject to statutory rate of 33%. According to the provisions of paragraphs 3 and 4 of Article 207-2 of the Tax Code, income from hotel services is exempt (i) for new hotels built within 15 years from the effectiveness of Act 788 of 2002, that is, until December 31, 2017, and (ii) for hotels that are remodeled and / or expanded, for a term of 30 years. On January 1, 2013, the Colombian tax authorities established a new equity tax. This tax is calculated based on gross income less non-taxable income, expenses, deductions, and windfall profits, at a rate of 8%. For the years 2013, 2014 and 2015, the applicable rate will be 9%. This tax may not be offset by tax losses or excess presumptive income of prior periods.

The Mexican legal entities are subject to Mexican income tax (ISR) and the Business Flat Tax ("IETU").

- ISR - Changes to the Mexican Income Tax Law in 2013 amended the statutory income tax rates for Mexican companies. For 2012 and 2011, the rate was 30%, where it will remain for 2013, and will decrease to 29% for 2014 and 28% in 2015 and thereafter.
- IETU - IETU is a tax based on income less certain deductions and certain tax credits, determined based on cash flows each year. The rate is 17.5%.

- Deferred income tax

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset when there is a legal right to offset assets with liabilities and when they relate to income taxes relating to the same taxing authority and the Entity intends to liquidate its assets and liabilities on a net basis.

- Current and deferred tax for the year

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

k. ***Provisions***

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

The amount recognized as a provision is the best estimate of the resources required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties associated with the obligation. When a provision is valued using the estimated cash flows to settle the present obligation, its carrying amount represents the present value of the cash flow.

When it is expected that some or all of the economic benefits required to settle a provision are recovered from a third party, an asset is recognized when it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are classified as current or noncurrent based on the period of time estimated to meet the obligations covered.

l. ***Revenue recognition***

The Entity recognizes revenue at the time services are rendered, as follows:

i. Revenues from hotel operations, including room rentals are recognized based on the hotel services rendered (rooms, food and beverage sales);
ii. Revenues from hotel management are recognized as they are earned as established in the operating contracts;
iii. Revenues from loyalty programs with third parties are recognized when the service is provided and are included as part of revenues from hotel operations; the fair value of the award is initially recognized as a reduction to revenues and recognized as deferred income until the benefits are rendered or delivered to the client. The liability is presented under the heading of "deferred revenue" in the consolidated statement of financial position.

m. ***Foreign currencies***

In preparing the financial statements of each individual subsidiary of the Entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

i. Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
ii. Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
iii. Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Entity's foreign operations are translated into Mexican pesos using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Entity's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Entity are reclassified to profit or loss.

The functional currencies of registration of foreign operations are as follows:

Country	Functional Currency
Pricom Cariari, S.A.	Colon (Costa Rica)
Sac Be Ventures Colombia, S.A.S.	Colombian Peso
Hoteles City Express Chile, LTDA y subsidiarias (HCE Chile)	Chilean Peso

n. ***Employee benefits***

Short-term employee benefits are calculated based on the services provided, considering current salaries, and a liability is recognized as it accrues. Short-term employee benefits mainly include salaries, holiday pay, vacation pay, bonuses and profit sharing.

Post-employment benefits from seniority premiums are recognized as they accrue and are calculated by independent actuaries based on the projected unit credit method using nominal interest rates.

The Entity recognizes the effects of financial income and expense from the calculation of post-employment benefits as part of interest income or expense in the consolidated statement of profit and other comprehensive income.

The Entity recognizes the costs for past services in the period they are generated. Additionally all actuarial gains and losses are recognized immediately through other comprehensive income.

Profit sharing (PTU for its acronym in Spanish) is a benefit payable to employees established in the Mexican Federal Labor Law and is determined based on taxable income under Article 16 of the Mexican Income Tax Law. PTU payable is recorded in the results of the year in which it is incurred and presented under hotel operating costs and expenses and selling and administrative expenses in the accompanying consolidated statements of profit and other comprehensive income.

o. ***Cash flow statement***

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

Interest and dividends paid are classified as financing cash flows while interest and dividends received are classified as investing activities.

p. ***Business combinations***

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Entity, liabilities incurred by the Entity to the former owners of the acquire and the equity interests issued by the Entity in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Entity in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 *Financial Instruments - Measurement and Valuation*, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss recognized in profit or loss.

When a business combination is achieved in stages, the Entity's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Entity obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

q. ***Leasing***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. During the periods presented, the Entity only had operating leases.

- The Entity as lessee

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

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

r. ***Derivative financial instruments***

The Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and interest rate caps. Further details of derivative financial instruments are disclosed in Note 9.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately.

The Entity does not designate these derivatives as accounting hedges, even if they are economic hedges.

s. ***Earnings per share for controlling interest***

Basic earnings per share are calculated by dividing the net income attributable to the controlling interest by the weighted average shares outstanding during the period.

For the periods reported, the Entity has not issued any potential dilutive instruments, for which reason diluted earnings per share approximates basic earnings per share.

5. Critical accounting judgments and key sources of estimation uncertainty

In applying the accounting policies of the Entity, which are described in Note 4, the Entity's management makes judgments, estimates and assumptions about certain amounts of assets and liabilities included in the financial statements and their related disclosures. The estimates and associated assumptions are based on historical experience and other factors deemed relevant. Actual results could differ from those estimates.

a. ***Critical judgments in applying accounting policies***

- Consolidation of subsidiaries

Certain investments in entities in which the Entity has a 50% shareholding are consolidated in these financial statements, as the Entity has concluded that it exercises control over the relevant activities. In management's judgment, it controls the subsidiaries relevant activities through agreements with the shareholders and operating contracts executed. These contracts contain potential voting rights whereby the Entity may acquire shares owned by third parties, which could be executed under certain circumstances.

b. ***Accounting estimates***

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period of the revision and future periods if the revision affects both current period and subsequent periods.

- Revenue recognition for customer loyalty programs

In applying judgment, management considers the detailed criteria for the recognition of revenue set out in IFRIC 13 *Customer Loyalty Programs* and, in particular, whether the Entity has rendered the related service. Its impact is in the line of deferred revenue, in the consolidated statement of financial position.

- Valuation of employee benefits

The liability for employee benefits includes estimates of wage growth and employee turnover, mortality rates, future inflation rates, and discount rates that are determined by the external actuary utilized by the Entity, in accordance with financial projections and the historical behaviors. Impacts of changes in these variables will affect the employee benefit liability and the related period costs.

- Valuation of income taxes

In the determination of deferred tax, the Entity estimates the certainty of generating taxable income in future periods in order to be able to benefit from its deferred tax assets, using projections of future taxable income to assist in this analysis. Impacts of changes in those projections could affect the realizability of the deferred tax assets in the consolidated statement of financial position and any related deferred tax benefit or expense for the period.

Additionally, in Mexico, the Entity is subject to a dual tax system of Income Tax (ISR, for its acronym in Spanish) and Business Flat Tax (IETU, for its acronym in Spanish), whereby it is required to pay the greater of the two taxes in any given year. Accordingly, the Entity projects future taxable profits to determine whether it will pay ISR or IETU, in order to determine under which regime to recognize its deferred tax assets and liabilities. The Entity has estimated that it will principally be subject to ISR in subsidiaries that hold property, equipment and leasehold improvements, and IETU in those entities that principally provide services. Accordingly, the Entity has recognized its deferred taxes based on both rates. Impacts of changes in those projections could affect the recognition of deferred taxes in the consolidated statement of financial position and the related expense for the period.

- Estimated useful lives and residual values of fixed assets

The Entity, through its internal experts opinion within its development area, evaluates, at the end of each reporting period, the useful life and the residual values of fixed assets, considering their operational experience and characteristics of the assets. Impacts to changes in those estimates could affect the value of property, equipment and leasehold improvements and the related depreciation expense for the period.

6. Cash, cash equivalents and restricted cash

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

	2012	2011	2010	January 1, 2010
Cash and bank deposits	$ 93,963,678	$ 61,202,171	$ 66,830,254	$ 34,325,695
Cash equivalents - Investments available on demand	435,889,962	484,020,657	810,347,271	176,785,458
Restricted cash (1)	25,154,967	25,960,030	18,930,690	16,062,847
	$ 555,008,607	$ 571,182,858	$ 896,108,215	$ 227,174,000

(1) Restricted cash represents funds held in a trust, as required by the Entity's loan agreements, in amounts equal to the principal and interest payments as established in these agreements. The payments are generally related to the following month or quarter, for which reason, restricted cash is classified as current.

7. Accounts receivable

	2012	2011	2010	January 1, 2010
Customers	$ 39,259,217	$ 29,636,491	$ 18,230,242	$ 20,016,073
Allowance for doubtful accounts	(724,959)	(404,902)	(73,130)	(206,060)
Sundry debtors	4,790,760	2,967,393	4,141,452	3,134,316
	$ 43,325,018	$ 32,198,982	$ 22,298,564	$ 22,944,329

The Entity has customers pursuant to agreements with certain companies, to whom it provides preferred rates and credit terms of 15 to 30 days. The Entity investigates the behavior of potential clients with other hotels, requesting letters of recommendation, in order to negotiate the same preferred rates and terms with such clients.

The Entity has an allowance for doubtful accounts, which is determined by reserving 100% of accounts receivable deemed to be uncollectible. To determine that an account receivable is uncollectible, the Entity is required to have exhausted all negotiations possible with the customer. The Entity also monitors the global deterioration of its receivable portfolio and only recognizes an allowance when there are indicators of impairment that exceed 2% of the total portfolio value.

Accounts receivable described above include amounts in arrears at the end of the period and for which the Entity has not recognized an allowance for doubtful accounts, because there has not been a significant change in credit quality and the amounts still are considered recoverable.

As of December 31, 2012, 53% of the past due portfolio is 30 days past due, 30% of the past due portfolio is 31 to 90 days past due and 17% of the past due portfolio is more than 90 days past due (days past due begin one day subsequent to the payment term date). Past due receivables maintained a similar behavior during the three periods presented in the accompanying consolidated financial statements.

Movement in the allowance for doubtful accounts

	2012	2011	2010
Balance at beginning of the year	$ (404,902)	$ (73,130)	$ (206,060)
Impairment losses recognized on receivables	(407,690)	(588,018)	(1,142,736)
Amounts written off during the year as uncollectible	87,633	256,246	1,275,666
Balance at end of the year	$ (724,959)	$ (404,902)	$ (73,130)

In determining the recoverability of a trade receivable, the Entity considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. Four major customers accounted for 24%, 19% and 32% of the accounts receivable as of December 31, 2012, 2011, and 2010, respectively.

The Entity does not hold any collateral over the balances considered uncollectible.

Age of impaired trade receivables

Impaired receivables have an average age of 164, 159 and 113 days for the years ended December 31, 2012, 2011 and 2010, respectively.

8. Prepaid expenses

	2012	2011	2010	January 1 2010
Insurance	$ 8,102,786	$ 2,567,169	$ 4,116,010	$ 2,022,244
Rentals	-	983,913	-	959,673
Advances to suppliers	15,910,423	26,210,829	19,221,225	14,884,040
Services	6,847,840	4,532,110	2,779,510	4,137,915
Prepaid expenses	5,828,769	3,621,692	-	-
	$ 36,689,818	$ 37,915,713	$ 26,116,745	$ 22,003,872

9. Derivative financial instruments

In order to manage interest rate risk with respect to loans, certain subsidiaries have entered into interest rate swaps and interest rate caps. All derivative financial instruments have been classified as held for trading and hedge accounting has not been applied.

	Beginning date	Ending date	Notional	Fair value at 2012	Fair value at 2011	Fair value at 2010	Fair Value at January 1, 2010
Cap TIIE (28 days) 8.5% Santander	25-March-2009	18-March-2014	$ 20,919,000	$ 514	$ 44,161	$ 61,696	$ 61,008
Cap TIIE (28 days) 8.5% Santander	16-February-2009	15-February-2014	27,365,814	624	51,441	75,925	75,078
Cap TIIE (28 days) 9% BBVA Bancomer	22-June-2006	26-June-2014	23,023,000	-	-	8,754	8,640
Cap TIIE (28 days) 8% Santander	17-April-2009	15-April-2014	33,728,532	2,304	104,588	160,438	158,358
Cap TIIE (28 days) 7.50% Santander	09-April-2010	08-April-2015	29,537,000	63,161	364,387	477,854	-
Cap TIIE (28 days) 8% Santander	20-July-2009	15-July-2014	18,918,000	3,525	77,811	108,958	107,545
Cap TIIE (28 days) 6% Credit Suisse	18-August-2011	15-August-2014	56,277,000	50,194	52,064	-	-
Cap TIIE (28 days) 6% Credit Suisse	18-August-2011	15-August-2014	32,877,000	29,403	30,475	-	-
Cap TIIE (28 days) 6% Credit Suisse	18-August-2011	15-August-2014	31,590,000	28,252	29,282	-	-
Cap TIIE (91 days) 8.5% BBVA Bancomer	15-August-2007	15-November-2016	55,000,000	23,625	10,017	11,408	11,281
Cap TIIE (91 days) 8.5% BBVA Bancomer	16-February-2009	15-November-2013	10,697,500	-	320,778	291,402	288,151
Cap TIIE (28 days) 9% BBVA Bancomer	05-June-2006	04-November-2014	19,000,000	13	12,615	10,690	10,585
Cap TIIE (28 days) 9% BBVA Bancomer	14-August-2006	19-November-2014	20,000,000	29	18,810	15,468	15,317
Cap TIIE (28 days) 8.5% Santander	17-May-2007	17-May-2017	27,000,000	80,005	237,115	239,597	236,924
Cap TIIE (91 days) 8.5% BBVA BANCOMER	28-September-2007	28-June-2017	25,638,500	35,055	384,786	426,578	421,818
Cap TIIE (91 days) 7.5% BBVA BANCOMER	28-June-2010	30-April-2015	28,762,000	14,286	297,184	259,284	256,390
Cap TIIE (91 days) 8.0% Santander	20-January-2011	31-December-2012	25,538,637	-	1,042	-	-
Cap TIIE (91 days) 8.0% Santander	17-April-2009	27-March-2014	22,027,560	316	26,416	47,643	47,025
Cap TIIE (28 days) 6.5% HSBC	14-April-2011	26-December-2013	28,601,446	489	96,478	-	-
Cap TIIE (28 days) 6.5% HSBC	25-April-2011	16-December-2013	38,404,133	713	133,010	-	-
Cap TIIE (28 days) 6.5% HSBC	04-April-2011	03-December-2013	28,880,000	380	82,426	-	-
Cap TIIE (28 days) 6% HSBC	03-June-2011	12-May-2014	39,305,629	11,123	325,186	-	-
				$ 344,011	$ 2,700,072	$ 2,195,695	$ 1,698,120

*TIIE = Mexican Interbank Equilibrium Interest Rate

	Beginning date	Ending date	Notional	Fair Value 2012	Fair Value 2011	Fair Value 2010	Fair Value January 1, 2010
Swap TIIE (28 days) 9.89% IXE	31-may-2004	29-november-2013	$ 18,000,000	$ 45,529	$ 294,325	$ 591,945	$ 702,333
Swap USD Libor 6M 5.26% IXE	18-august-2004	18-march-2013	1,386,847	41,196	238,733	480,137	794,919
Swap TIIE (28 days) 9.91% IXE	11-june-2004	11-dec-2013	9,150,000	64,134	145,958	293,549	355,742
Swap TIIE (28 days) 9.86% IXE	04-june-2004	04-december-2013	17,300,000	69,069	238,014	478,692	580,014
Swap USD Libor 6M 5.41% IXE	27-september-2004	26-march-2013	1,765,000	42,960	266,580	536,037	920,938
				$ 262,888	$ 1,183,610	$ 2,380,360	$ 3,353,946

10. Investment in Trust

In March 2007, the Entity established, as Trustor and secondary beneficiary, jointly with other investors, a trust (the "Trust") to jointly construct a hotel, to operate under one of the trademarks owned by the Entity, as well as offices. On such date, the Entity acquired 22% of the Trust. The principal asset of the Trust is represented by land and works related to the stabilization of the slope of the land, as well as preliminary construction. In February 2011, the Entity acquired 66% of the rights to the Trust. Under IFRS 3 *Business Combination* (IFRS 3), this additional acquisition is not a business combination. Under IAS 16 *Property, Plant and Equipment* (IAS 16) this transaction was considered an exchange of assets with economic substance, whereby the Entity exchanged its beneficiary rights over the Trust for land, generating a gain on the exchange, recognized in the statement of profit and other comprehensive income and the recognition of the non-controlling interest beginning on the date of the purchase of the rights over the Trust.

11. Property, equipment and leasehold improvements

	2011	Additions	Disposals	Capitalization of construction in progress	Effects of foreign exchange rates	2012
Land	$ 1,094,835,294	$ 130,122,918	$ -	$ -	$ 3,594,900	$ 1,228,553,112
Buildings	2,205,825,170	-	5,529,943	454,455,732	(97,045)	2,654,653,914
Operating equipment	414,025,502	114,584,537	29,130,454	-	(17,157)	499,462,428
Minor equipment	46,590,285	75,407	4,689	-	(3,703)	46,657,300
Computers	55,208,073	22,482,552	15,790,176	-	-	61,900,449
Furniture and equipment	16,314,371	1,962,668	1,443,225	-	-	16,833,814
Leasehold improvements	8,044,901	-	-	-	-	8,044,901
Vehicles	20,420,339	7,638,708	3,396,020	-	-	24,663,027
Remodeling and replacements	12,793,206	13,220,844	-	-	-	26,014,050
Construction in-progress	327,591,818	491,633,850	-	(454,455,732)	(4,569,635)	360,200,301
Total	4,201,648,959	781,721,484	55,294,507	-	(1,092,640)	4,926,983,296
Accumulated depreciation						
Buildings	(38,142,814)	(29,449,130)	4,059,636	-	-	(63,532,308)
Operating equipment	(193,138,853)	(88,592,541)	14,254,385	-	-	(267,477,009)
Minor equipment	(29,493,536)	(1,785,226)	770,033	-	-	(30,508,729)
Computers	(28,984,968)	(18,586,199)	16,640,874	-	-	(30,930,293)
Furniture and equipment	(17,431,832)	(7,772,841)	1,377,542	-	-	(23,827,131)
Leasehold improvements	(4,838,924)	-	-	-	-	(4,838,924)
Vehicles	(8,382,188)	(6,248,024)	3,547,147	-	-	(11,083,065)
Accumulated depreciation	(320,413,115)	(152,433,961)	40,649,617	-	-	(432,197,459)
Total	$ 3,881,235,844	$ 629,287,523	$ (14,644,890)	$ -	$ (1,092,640)	$ 4,494,785,837

	2010	Additions	Disposals	Capitalization of construction in progress	Effects of foreign exchange rates (i)	2011
Land	$ 881,739,648	$ 213,095,646	$ -	$ -	$ -	$ 1,094,835,294
Buildings	1,774,828,812	338,747,051	-	92,249,307	-	2,205,825,170
Operating equipment	307,986,231	150,024,760	43,985,489	-	-	414,025,502
Minor equipment	46,401,197	277,837	88,749	-	-	46,590,285
Computers	40,741,606	28,937,295	14,470,828	-	-	55,208,073
Furniture and equipment	14,381,341	2,689,226	756,196	-	-	16,314,371
Leasehold improvements	12,830,576	-	4,785,675	-	-	8,044,901
Vehicles	15,308,459	9,366,368	4,254,488	-	-	20,420,339
Remodeling and replacements	-	12,793,206	-	-	-	12,793,206
Construction in-progress	239,519,515	180,321,610	-	(92,249,307)	-	327,591,818
Total	3,333,737,385	936,252,999	68,341,425	-	-	4,201,648,959
Accumulated depreciation						
Buildings	(16,271,456)	(30,669,233)	8,797,875	-	-	(38,142,814)
Operating equipment	(145,501,783)	(69,444,268)	21,807,198	-	-	(193,138,853)
Minor equipment	(27,983,437)	(1,854,769)	344,670	-	-	(29,493,536)
Computers	(23,769,408)	(17,781,495)	12,565,935	-	-	(28,984,968)
Furniture and equipment	(10,483,873)	(6,966,994)	19,035	-	-	(17,431,832)
Leasehold improvements	(4,838,924)	-	-	-	-	(4,838,924)
Vehicles	(7,494,294)	(4,213,319)	3,325,425	-	-	(8,382,188)
Accumulated depreciation	(236,343,175)	(130,930,078)	46,860,138	-	-	(320,413,115)
Total	$ 3,097,394,210	$ 805,322,921	$ (21,481,287)	$ -	$ -	$ 3,881,235,844

	January 1, 2010	Additions	Disposals	Capitalization of construction in progress	Effects of foreign exchange rates (i)	2010
Land	$ 785,602,395	$ 96,137,253	$ -	$ -	$ -	$ 881,739,648
Buildings	1,549,743,153	144,552,749	-	80,532,910	-	1,774,828,812
Operating equipment	255,595,802	65,592,899	13,202,470	-	-	307,986,231
Minor equipment	45,163,437	3,073,604	1,835,844	-	-	46,401,197
Computers	32,325,972	13,408,456	4,992,822	-	-	40,741,606
Furniture and equipment	12,951,316	2,000,025	570,000	-	-	14,381,341
Leasehold improvements	12,722,881	107,695	-	-	-	12,830,576
Vehicles	11,256,593	5,983,403	1,931,537	-	-	15,308,459
Remodeling and replacements	269,839,576	50,212,849	-	(80,532,910)	-	239,519,515
	2,975,201,125	381,068,933	22,532,673	-	-	3,333,737,385
Accumulated depreciation						
Buildings	-	(20,797,629)	4,526,173	-	-	(16,271,456)
Operating equipment	(98,808,025)	(61,897,362)	15,203,604	-	-	(145,501,783)
Minor equipment	(26,442,170)	(566,688)	(974,579)	-	-	(27,983,437)
Computers	(15,427,550)	(13,327,413)	4,985,555	-	-	(23,769,408)
Furniture and equipment	(3,586,115)	(11,101,956)	4,204,198	-	-	(10,483,873)
Leasehold improvements	(4,838,924)	-	-	-	-	(4,838,924)
Vehicles	(4,850,214)	(4,467,847)	1,823,767	-	-	(7,494,294)
Accumulated depreciation	(153,952,998)	(112,158,895)	29,768,718	-	-	(236,343,175)
Total	$ 2,821,248,127	$ 268,910,038	$ 7,236,045	$ -	$ -	$ 3,097,394,210

(i) During 2010 there were no investments in foreign operations and during 2011, foreign operations did not have fixed assets. Accordingly, no translation effects are shown during those periods.

Assets pledged as collateral

Certain of the Entity's land and buildings are pledged as collateral on its bank loans (see Note 13). The Entity is not authorized to grant such land as collateral for other loans or sell such land to another entity.

Cost of capitalized interest

Capitalized interest at December 31, 2012, 2011 and 2010 totaled $14,954,701, $10,492,888 and $1,691,704, respectively.

12. Other assets

The balance as of December 31, 2012 is primarily composed of:

i. Payments for the acquisition of the "El Dorado Bogotá" land, through a purchase- sale and trust agreement executed by the subsidiary Sac BeVentures Colombia, .S. A.S.; the land will be used for the planning, design, and construction of buildings owned by Sac Be Ventures Colombia, S.A.S. As of the issuance date of the accompanying consolidated financial statements, the total acquisition value of the land has been paid.

ii. Deposits for the purchase of land by the Chilean subsidiary, Inversiones HCP, S. A.

iii. Debt issuance costs related to bank loans that, as of December 31, 2012, are in the process of being finalized.

13. Bank loans

To finance the development and construction of buildings, the Entity has issued long-term bank loans in Mexican pesos, U.S. dollars, and-Chilean pesos with domestic and international financial institutions. These financings were issued directly by the subsidiary companies that own each of the hotels, with the hotels as collateral or other guarantees set up through unit trust unit on each property, generally providing a joint obligation with related companies.

At 31 December 2012, 2011 and 2010, the long-term bank loans are summarized as follows:

	2012	2011	2010	January 1, 2010
Collateralized loans (hotels as collateral), carried at amortized cost:				
Lines of credit with HSBC for $225,000,000, the first withdrawal at TIIE (28 days) plus 2.60%, the second withdrawal at TIIE (28 days) plus 3.75%, with maturity in 2018. Prepaid in 2012 (i).	$ -	$ 526,942,378	$ 217,792,020	$ 189,830,265
BBVA loan for $66,800,000, at TIIE (28 days) plus 2.35%, maturing in 2012. Prepaid in 2011.	-	-	49,965,699	56,841,623
Line of credit with HSBC for $770,874,057, at TIIE (28 days) plus 1.90%, maturing in 2019.	759,388,095	-	-	-
HSBC loan for $19,000,000, at TIIE (28 days) plus 2.60%, maturing in 2014 (ii).	4,963,049	7,276,704	9,529,346	11,568,426
Banorte loan for $20,000,000, at TIIE (28 days) plus 2.85%, maturing in 2014.	6,186,852	8,746,582	10,998,745	13,054,814
HSBC loan for $20,423,000, at TIIE (28 days) plus 2.60%, maturing in 2015 (i).	9,609,715	12,609,163	12,548,392	13,653,080

	2012	2011	2010	January 1, 2010
Banorte loan for $35,000,000, at TIIE (28 days) plus 2.7%, maturing in 2016. Prepaid in 2011 (i).	-	-	24,549,659	28,297,329
BANCOMEXT loan for $22,027,560, at TIIE (28 days) plus 2.75%, maturing in 2016 (i).	10,599,044	13,300,137	16,020,084	18,713,360
BANCOMEXT loan for $24,122,484, at TIIE (28 days) plus 2.75%, maturing in 2016 (i).	13,995,754	16,472,106	19,653,729	22,822,597
BANCOMEXT loan for $21,452,643, at TIIE (28 days) plus 4.00%, maturing in 2018 (iii).	17,443,344	19,219,329	20,823,837	20,751,752
BANCOMEXT loan for $33,109,427, at TIIE (28 days) plus 3.25%, maturing in 2020 (i).	28,582,319	32,519,457	32,412,456	-
Scotiabank loan for $65,000,000, at TIIE (28 days) plus 3.50%, maturing in 2014 prepaid in 2011 (i).	-	-	56,921,363	61,558,638
Santander loan for $27,000,000, at TIIE (28 days) plus 2.75%, maturing in 2017 (i).	17,136,673	20,339,246	22,213,659	24,171,869
Loan with MetLife for $85,000,000, fixed rate of 8.88%, maturing in 2019 (ii).	82,522,855	-	-	-
CAIXA NOVA loan for $USD 6,500,000, at LIBOR (3 months) (v) plus 3%, maturing in 2019 (i).	-	78,821,215	73,667,147	78,832,110
BBVA loan for $25,380,000, at TIIE (28 days) plus 1.95%, maturing in 2017 (iii).	14,713,785	17,328,206	20,093,050	22,822,773
BBVA loan for $28,762,000, at TIIE (28 days) plus 3.25%, maturing in 2020 (iii).	27,255,998	28,401,280	28,376,431	-
Banorte loan for $29,300,000, secured with a property, at TIIE (28 days) plus 1.96%, maturing in 2018 (i).	17,615,151	25,235,031	29,356,414	24,753,895

	2012	2011	2010	January 1, 2010
BANCOMEXT loan for $43,404,133, at TIIE (28 days) plus 3.25%, maturing in 2020 (i).	35,249,554	42,838,440	21,287,228	-
BANCOMEXT loan up to $ 28,601,446, at TIIE (28 days) plus 3.25%, maturing in 2020 (i).	26,354,375	28,094,217	16,564,008	-
Santander loan with for $26,039,905, at TIIE (28 days) plus 4.00%, maturing in 2018 (iii).	20,661,327	22,804,270	24,786,469	28,177,922
Scotiabank loan for $30,000,000, at TIIE (28 days) plus 3.50%, maturing in 2015 (i).	25,235,383	27,115,163	29,048,541	29,483,559
BANCOMEXT loan for $35,331,922, at TIIE (28 days) plus 2.25%, maturing in 2021 (i).	31,726,689	34,502,854	-	-
BANCOMEXT loan for $42,405,101, at TIIE (28 days) plus 3.25% maturing in 2021 (i).	38,441,011	41,367,272	-	-
BANCOMEXT loan for $39,305,629, at TIIE (28 days) plus 3.25%, maturing in 2021 (i).	38,479,813	38,349,378	-	-
BANCOMEXT loan for $30,000,000, at TIIE (28 days) plus 2.25%, maturing in 2021 (i).	28,824,297	29,330,282	-	-
Scotiabank loan for $28,880,000, at TIIE (28 days) plus 3.30%, maturing in 2016 (i).	26,269,401	28,164,723	-	-
Loan from International Finance Corporation for $191,000,000, net rate equivalent to over TIIE (28 days) plus 2.665% maturing in 2022 (i).	182,781,923	-	-	-
BANCOMEXT loan for $35,133,148, at TIIE (28 days) plus 3.3%, maturing in 2022 (i).	35,045,315	-	-	-

	2012	2011	2010	January 1, 2010
Line of credit with International Finance Corporation and Deutsche Investitions-und Entwicklungsgesellshaft mbH up to USD$30,000,000, respectively, at LIBOR (v) plus 4.70%, maturing in 2023 (iii).	60,118,216	-	-	-
BANCOMEXT loan for $35,925,492, at TIIE (28 days) plus 2.33%, maturing in 2022 (i).	35,264,616	-	-	-
Corp Banca loan for 1,070,364,637 in Ch P, at a rate of 8.05%, maturing in 2014 (iv).	28,920,957	-	-	-
Corp Banca loan for 950,357,926 in Ch P, at a rate of 5.20%, maturing in 2014 (iv).	25,723,716	-	-	-
Corp Banca loan for 529,311,540, at a rate of 5.20%, maturing in 2014 (iv).	14,327,086	-	-	-
Actinver loan for $40,000,000, collateralized, at TIIE (28 days) plus 2.5%, maturing in 2015 (i).	39,782,134	-	-	-
Interest payable	9,021,096	5,387,509	3,618,759	3,618,649
Total	1,712,239,543	1,105,164,942	740,227,036	648,952,661
Less: current portion	(86,688,414)	(55,844,496)	(55,893,714)	(42,032,479)
Long-term debt	$1,625,551,129	$1,049,320,446	$ 684,333,322	$ 606,920,182
TIIE at period end	4.8475%	4.8035%	4.8750%	4.9231%

(i) Quarterly amortization
(ii) Monthly amortization
(iii) Bi-annual amortization
(iv) Principal due at the term of the loan
(v) LIBOR = London Interbank Offered Rate

Each bank credit agreement provides for certain restrictions, which must be met individually by the subsidiary company that has signed the bank loan. Such restrictions include limiting or generally prohibiting the issuance of interest-bearing liabilities, prohibiting the merger or spin-off with other affiliates (even though they may form part of the same socioeconomic group), prohibiting the granting of loans, collateral, or other fiduciary activities with third parties or its subsidiaries, reducing its share capital, paying dividends, increasing capital in subsidiaries, maintaining minimum amounts of equity and meeting tax obligations.

In addition, each subsidiary that issues debt is generally required to maintain certain financial ratios at specified levels, during the term of the loans. The most significant ratios include: (i) operating income before taxes plus depreciation plus interest expense, divided by interest expense, and (ii) financial leverage, defined as the division of financial liability between equity, among others.

Covenants and financial ratios have been complied with as of December 31, 2012, 2011 and 2010.

Where appropriate, the Entity has the opportunity to request changes or waivers, with the prior authorization of the relevant financial institution, in order to permit certain operational objectives of the Entity, when necessary.

The value of assets pledged as collateral for loans is $3,379,044,195, $3,255,508,846 and $2,229,773,250 as of December 31, 2012, 2011 and 2010, respectively.

At December 31, 2012, the Entity has available lines of credit, for which amounts had not yet been withdrawn, amounting to $171,127,755 and USD $25,400,000.

At December 31, 2011, the Company has available lines of credit, for which amounts had not yet been withdrawn, amounting to $303,000,000 from which in March 2012 $ 95.5 million were used.

At December 31, 2010, the Company has available lines of credit, for which amounts had not yet been withdrawn, amounting to $27,372,296.

14. Employee benefits

Short-term employee benefits

	2012	2011	2010	January 1, 2010
Profit sharing (i)	$ 1,095,672	$ 887,485	$ 992,085	$ 973,619
Bonus (ii)	4,971,620	3,983,613	-	5,252,855
	$ 6,067,292	$ 4,871,098	$ 992,085	$ 6,226,474

(i) Profit sharing is a benefit provided to employees as required by the Mexican Federal Labor Law and is determined as a percentage of the Entity's fiscal performance.

(ii) A bonus is provided to top management based on the operational/financial performance of the Entity, and is authorized by the Compensation Committee of the Entity.

Post-employment benefits

The Entity manages defined benefit plans for employees of its subsidiaries in Mexico called "seniority premiums". Under these plans, employees are entitled to retirement benefits under Article 162 of the Mexican Federal Labor Act in case of death, disability, redundancy or voluntary retirement. The seniority premium is equivalent to twelve days of salary per year of service worked; the wage considered for the calculation cannot be less than the minimum wage in the relevant geographic area, or more than twice the minimum wage. Seniority takes into account all the years of service provided by the employee. In case of voluntary retirement, seniority premiums are granted only if the employee has worked at least fifteen years for the Entity. The Entity does not grant other post-retirement benefits.

The Entity obtains actuarial calculations at each reporting date from an external actuary. The present value of the defined benefit obligation and the current service cost and past service costs were calculated using the projected unit credit method.

The main assumptions used for purposes of the actuarial valuations are as follows:

	Valuation at			
	2012	**2011**	**2010**	**January 1, 2010**
	%	**%**	**%**	**%**
Discount rate	6.50	7.62	7.62	7.62
Expected wage increase rate	5.50	5.55	5.55	5.55

Period cost related to seniority premiums are as follows, as well as a rollforward of the liability at each reporting date are as follows:

	2012	**2011**	**2010**	**January 1, 2010**
Current service cost	$ 362,410	$ 256,251	$ 148,610	$ 194,302
Interest expense (i)	34,724	22,413	25,935	22,343
Actuarial gains and losses (ii)	170,932	(113,634)	(222,194)	(161,864)
	568,066	165,030	(47,649)	54,781
Balance at the beginning of the year	465,376	300,346	347,995	293,214
Balance at the end of the year	$ 1,033,442	$ 465,376	$ 300,346	$ 347,995

The plans are not funded.

(i) Interest is presented within financial cost in the statement of profit and comprehensive income.
(ii) Actuarial gains and losses are recognized in within other comprehensive income.

Defined contribution plans

Under Mexican legislation, the Entity must make payments equivalent to 2% of its workers' daily integrated salary (ceiling) to a defined contribution plan that is part of the retirement savings system established by Mexican law. The expense was $7,694,860, $6,117,808 and $4,451,946 in 2012, 2011 and 2010, respectively.

15. Deferred revenue

Deferred revenues from the customer loyalty program "City Premios", provides guests a certain number of points for each night stay, redeemable for hotel nights, point cards, movie tickets and other products. The Entity applies IFRIC 13 *Customer Loyalty Programs* (IFRIC 13) to account for the program; as such, the Entity values the points at fair value and recognizes the revenues related to the points when related services are provided to customers. The points have an average maturity of two years.

16. Income taxes

The income tax incurred will be the higher of ISR and IETU.

Based on its financial projections, the Entity identified that subsidiaries with significant investments in property and equipment essentially pay ISR. Accordingly, those entities recognize deferred tax based on ISR; other subsidiaries that are service providers expect to incur principally IETU and have thus calculated deferred income taxes based on IETU.

a. Income taxes are as follows:

	2012	2011	2010
ISR:			
Current	$ 19,653,970	$ 8,449,371	$ 7,086,239
Deferred	(23,596,495)	(12,612,574)	(21,069,029)
	(3,942,525)	(4,163,203)	(13,982,790)
IETU:			
Current	8,860,390	10,727,469	15,217,511
Deferred	639,982	179,580	(31,283)
	9,500,372	10,907,049	15,186,228
Total	$ 5,557,847	$ 6,743,846	$ 1,203,438

b. Reconciliation of the statutory and effective income tax rate, expressed as a percentage of the profit before taxes, is as follows:

	2012 %	2011 %	2010 %
Statutory rate	30	30	30
Effects of inflation	(43)	(58)	(52)
Non-deductible expenses	1	3	2
Others	-	-	(83)
Business flat tax	30	65	112
Effective rate	18	40	9

c. Main concepts that originate the deferred income taxes balances are:

	2012	2011	2010	January 1, 2010
Deferred income tax asset:				
Income tax loss	$ 71,974,604	$ 69,982,040	$ 53,412,700	$ 35,271,640
Allowance for doubtful accounts	211,410	37,097	208,548	61,818
Accrued expenses and other liabilities	9,524,625	7,761,211	5,833,695	6,972,148
Derivative financial instruments	(2,420)	1,200,125	1,151,362	-
Other, net	240,588	355,083	328,844	-
Deferred income tax asset	81,948,807	79,335,556	60,935,149	42,305,606

	2012	2011	2010	January 1, 2010
Deferred income tax liability:				
Property, equipment and leasehold improvements	(303,473,577)	(325,575,467)	(320,898,537)	(336,783,657)
Prepaid expenses	(3,862,012)	(3,459,090)	(2,380,755)	(111,733)
Deferred income tax liability	(307,335,589)	(329,034,557)	(323,279,292)	(336,895,390)
Total liability	$ 225,386,782	$ 249,699,001	$ 262,344,143	$ 294,589,784

d. Main concepts that originate the deferred IETU balances are:

	2012	2011	2010	January 1, 2010
Deferred IETU asset:				
Accounts payable	$ 1,428,818	$ 1,173,240	$ 1,419,491	$ 1,161,799
Payroll and related taxes	1,408,662	471,526	270,828	221,662
Employee benefits	2,452,723	1,385,569	1,214,375	993,919
Deferred IETU asset	5,290,203	3,030,335	2,904,694	2,377,380
Deferred IETU liability:				
Accounts receivable	(4,418,509)	(1,686,765)	(1,317,906)	(939,815)
Prepaid expenses	(198,421)	(25,604)	(89,241)	-
Deferred IETU liability	(4,616,930)	(1,712,369)	(1,407,147)	(939,815)
Total asset	$ 673,273	$ 1,317,966	$ 1,497,547	$ 1,437,565

e. The benefits of restated tax loss carryforwards for which the deferred ISR asset has been partially recognized, can be recovered subject to certain conditions. Expiration dates and restated amounts as of December 31, 2012, are:

Year	Amount
2013	$ 1,679,945
2015	99,512
2016	3,451,103
2017	12,289,755
2018	29,914,515
2019	46,980,980
2020	62,971,366
2021	54,046,563
2022	53,926,787
	$ 265,360,526

The benefits generated by credits for IETU tax losses which have not been recognized given that their recovery is not probable. The amount of the unrecognized benefit for 2012, 2011 and 2010 is $259,838,998, $243,617,101and $161,922,205, respectively.

17. Acquisitions of investments

a. *Non-controlling interests acquired*

- In October 2010, the Entity acquired the remaining 50% of the subsidiary Impulsora Plaza Guadalajara, S.A. de C.V. The acquisition was made for an amount in excess of the carrying value of the non-controlling interest of $21,374,458.
- In November 2010, the Entity acquired the remaining 50% of the subsidiary Impulsora Plaza Lerma, S.A. de C.V. The acquisition was made for an amount in excess of the carrying value of the non-controlling interest of $20,134,417.
- In 2010, the Entity made additional contributions of capital to Grupo Inmobiliario Rosetta, S. A. de C. V. which diluted the non-controlling interests by $3,349,255.
- In December, 2012 the Entity acquired the remaining 50% of the subsidiary Administradora de Hoteles Business Class, S. A. de C. V. The acquisition was made for an amount in excess of the carrying value of the non-controlling interest of $17,031,016.
- In December, 2012 the Entity acquired the remaining 50% of the subsidiary Impulsora Plaza Villa Hermosa, S. A. de C. V. The acquisition was made for an amount in excess of the carrying value of the non-controlling interest of $124,340.

b. **Business combinations**

- In April 2011, the Entity acquired 50% of the shares of Rivera del Mar, S.A. de C.V., obtaining control over such entity. As shown in the table below, the excess of the fair value of the net assets acquired assets over the consideration paid, of $3,184,753, was recognized as gain on the income statement.

The fair value of the net assets acquired is detailed below:

	Rivera del Mar, S.A. de C.V. Balances at March 31, 2011
Current assets	$ 2,400,460
Fixed assets	63,496,894
Total assets	65,897,354
Current liabilities	$ (1,470,252)
Net assets acquired	$ 64,427,102

Fair value of consideration paid and non-controlling interest

	2011
Consideration paid in cash	$ 28,818,745
Fair value of the non-controlling interest	32,423,604
	$ 61,242,349

The results for the year ended December 31, 2011 included a loss of $134,776 generated by the acquired business from the acquisition date.

18. Financial instruments

a. *Capital management*

The Entity manages its capital to ensure that all subsidiaries will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balances. The overall strategy of the Entity has not been modified during the reporting periods.

The capital structure of the Entity consists of net debt (loans as detailed in Note 13 offset by cash and bank balances) and equity securities (consisting of capital subscribed and paid, legal reserve, additional paid-in capital subscription and comprehensive income as disclosed in Note 19).

The Entity is not subject to any externally imposed requirement for managing its capital at a consolidated entity level, but at the level of certain subsidiaries, capital requirements exist for loans directly issued by subsidiaries and in which in most cases, Inmobiliara Hotelera City Express, S. A. de C. V. and/or Hoteles City Express, S. A. de C. V. are joint guarantors.

The Finance Committee is responsible for monitoring and recommending policies, as often as necessary, on risk management of the Entity, primarily through analysis of income and net operating income and interest coverage and debt service rates, as well as its exposure to currency risk and interest rate risk.

Ratios monitored by the Finance Committee are as follows:

	2012	2011	2010
Current portion of long-term debt	$ 86,688,414	$ 55,844,496	$ 55,893,714
Bank loans	1,625,551,129	1,049,320,446	684,333,322
(-) Cash, cash equivalents and restricted cash	(555,008,607)	(571,182,858)	(896,108,215)
Net debt	1,157,230,936	533,982,084	(155,881,179)
Equity	3,256,961,296	3,169,516,818	3,029,804,030
Consolidated operating profit	122,938,990	68,413,620	78,837,791
Depreciation	144,498,459	107,750,834	89,248,232
Finance costs	97,480,643	81,348,615	68,050,430
Net operating cash flows (consolidated operating profit plus depreciation)	267,437,449	176,164,454	168,086,023
Ratios:			
Net operating cash flows /Finance costs (i)	2.7	2.2	2.5
Net debt / Net operating cash flows (ii)	4.3	3.0	(0.9)
Leverage	0.5	0.4	0.2

(i) This indicator demonstrates the ability of the entity to meet its payment obligations or commitments.
(ii) This indicator demonstrates the borrowing capacity of the entity.

b. ***Financial instruments categories***

	2012	2011	2010	January 1, 2010
Financial assets				
Cash, cash equivalents and restricted cash	$ 555,008,607	$ 571,182,858	$ 896,108,215	$ 227,174,000
FVTPL (held for trading) (derivative financial instruments)	344,011	2,700,072	2,195,695	1,698,120
Loans and receivables (accounts receivables)	43,325,018	32,198,982	22,298,564	22,944,329
Financial liabilities				
FVTPL				
(held for trading) (derivative financial instruments)	262,888	1,183,610	2,380,360	3,353,496
Others (accounts payables to suppliers)	47,750,622	38,410,803	25,770,082	27,793,879
Long-term debt (including current portion)	1,712,239,543	1,105,164,942	740,227,036	648,952,661

c. ***Financial risk management objectives***

The Entity's Corporate Treasury function provides services to the subsidiaries, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Entity through internal risk reports, which analyzes exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Entity seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the recommendations and policies approved by the Finance Committee, which provide guidelines on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Management reports compliance with policies and exposure limits to the Finance Committee on a continuous basis. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

d. ***Market Risk***

The Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, including:

- Interest rate swaps and caps to mitigate the risk of variable interest rates

The market risk exposures are measured on a net basis, given that before entering into derivative financial instruments as a financial hedging strategy, the Entity seeks to naturally hedge its risks through the netting of its exposures from its financial assets and liabilities.

As a result of entering into markets other than Mexico, the Entity´s exposure to exchange rate risk has changed and consequently, the way it manages this risk.

e. ***Foreign currency risk management***

Accounts that generate foreign exchange rate risk are cash, receivables and bank loans, which are in different currencies (mainly USD) from the functional currency of each subsidiary.

These currencies undergo periodic fluctuations relative to the Mexican peso. Therefore, any fluctuation in the value of these currencies against the Mexican peso affects the results, financial position and cash flows of the entities that transact in these currencies.

Below is a breakdown of the foreign currency exposure:

	2012	2011	2010	January 1, 2010
Financial assets in U.S. dollars	3,624,233	14,671,217	47,370,088	11,638,331
Financial liabilities in U.S. dollars	(4,686,583)	(5,790,113)	(6,173,070)	(6,363,275)
Net exposure	US$(1,062,350)	US$ 8,881,104	US$41,197,018	US 5,275,056

Mexican peso exchange rates in effect at the dates of the consolidated statements of financial position and at the date of issuance of the accompanying consolidated financial statements were as follows:

	December 31,				
	2012	2011	2010	January 1, 2010	April 5, 2013
U. S. Dollar	12.9880	13.9787	12.3817	13.0437	12.3197
Chilean peso	36.7341	37.0817	37.2882	38.0163	38.1543
Costa Rican colon	39.1284	36.6157	39.8894	41.7482	39.6710
Colombian peso	136.1433	138.9757	157.429	154.702	148.248

Additionally, the Entity is exposed to fluctuations in the Costa Rican colon, the Colombian peso and the Chilean peso with respect to the translation of Promotora Hotelera City Express, S. A. de C. V., Pricom Cariari, S. A., Sac Be Ventures Colombia, Hoteles City Express Chile. LTA,, and Sac Be, LLC, in the consolidated financial statements.

- ***Foreign currency sensitivity analysis***

  At the level of the consolidated financial statements, the Entity is exposed to fluctuations of the U. S. dollar against the Mexican peso with respect to transactions denominated in that currency and to fluctuations in the Costa Rica colons, Colombian peso and the Chilean peso against the Mexican peso with respect to foreign currency translation. With respect to the U.S. dollar, the Entity considers that a reasonable variation between these currencies would be 1.21, 1.82, and 1.02 Mexican pesos per U. S. dollar in 2012, 2011 and 2010, respectively. The above mentioned changes would have increased or decreased the effect on net income of + / - $1,285,445, + / - $16,163,609 and + / - $42,020,958 pesos for 2012, 2011 and 2010, respectively.

  On a consolidated financial statement level, exchange rate risk also includes the effect of investments in subsidiaries with functional currencies in Costa Rica colons, Chilean pesos and Colombian pesos and is reflected in the cumulative translation adjustment as part of other comprehensive income item.

  A fluctuation of the Mexican peso against the colón, the colombian peso and the chilean peso, would result in total combined changes in stockholders' equity as follows: + / - $157.794 for 2012 and + / - $403.598 for 2011. In 2010, the Entity had no investments in foreign operations are therefore sensitivity is not presented.

f. ***Interest rate risk management***

The Entity is exposed to interest rate risk because subsidiaries borrow funds at both fixed and floating interest rates. The risk is managed by the Entity by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap and interest rate caps contracts.

- ***Interest rate sensitivity analysis***

The sensitivity analyses have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year.

Year	Sensitivity +/-	Variation on interest expense
2012	0.50%	$ 4,065,032
2011	0.25%	4,305,443
2010	0.25%	3,667,218

- ***Interest rate swap contracts***

Under interest rate swap contracts, the Entity agrees to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the Entity to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract.

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is TIIE. The Entity will settle the difference between the fixed and floating interest rate on a net basis.

None of the interest rate swap contracts are designated as hedges.

g. ***Liquidity risk management***

The CFO reports to the CEO and to the Finance Committee, but has the ultimate responsibility for liquidity risk management and has established a framework for the management of the Entity's short-, medium- and long-term funding and liquidity management requirements. The Entity manages liquidity risk by maintaining adequate reserves and borrowing facilities, and by continuously monitoring forecast and actual cash flows to match the maturity profiles of financial assets and liabilities. Note 13 below sets out details of additional undrawn facilities that the Entity has at its disposal to further reduce liquidity risk.

- ***Liquidity and interest risk tables***

The following tables detail the Entity's remaining contractual maturities for its financial liabilities with agreed repayment periods. The tables have been presented based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Entity can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

	1 to 365 days	1 to 5 years	More than 5 years	Total
December 31, 2012				
Non-interest bearing debt	$ 47,750,622	$ -	$ -	$ 47,750,622
Variable and fixed interest rate debt - Weighted average interest rate 7.42%.	200,101,438	967,219,018	1,122,888,179	2,290,208,635
Derivative financial instruments	262,888	-	-	262,888
	$ 248,114,948	$ 967,219,018	$ 1,122,888,179	$ 2,338,222,145
December 31, 2011				
Non-interest bearing debt	$ 38,410,803	$ -	$ -	$ 38,410,803
Variable and fixed interest rate debtWeighted average interest rate 7.57%.	142,443,015	794,408,333	696,612,532	1,633,463,880
Derivative financial instruments	1,183,610	-	-	1,183,610
	$ 182,037,428	$ 794,408,333	$ 696,612,532	$ 1,673,058,293
December 31, 2010				
Non-interest bearing	$ 25,770,082	$ -	$ -	$ 25,770,082
Variable and fixed interest rate. Weighted average interest rate 7.63%.	111,562,861	622,424,263	376,483,396	1,110,470,520
Derivative financial instruments	2,380,360	-	-	2,380,360
	$ 139,713,303	$ 622,424,263	$ 376,483,396	$ 1,138,620,962

h. ***Fair value of financial instruments carried at amortized cost***

Except as detailed in the following table, Management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

	2012		2011		2010	
	Carrying amount	Fair Value	Carrying amount	Fair Value	Carrying amount	Fair Value
Banking loans and interest	$1,712,239,543	$1,695,708,362	$1,105,164,942	$1,260,267,616	$740,227,036	$829,136,540

- ***Valuation techniques and assumptions applied for the purposes of measuring fair value***

  The fair values of financial assets and financial liabilities (derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis. A discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. Interest rate caps are valued using the Black Scholes formula, which uses variables including the spot value of the underlying asset, maturity date, volatility, price, domestic interest rate and foreign interest rate. Both valuations are Level 3.

- ***Fair value measurements recognized in the consolidated statement of financial position***

  Fair value of financial assets and financial liabilities is valuated subsequent to the beginning recognition at fair value and are based on the following hierarchy:

  - Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities, in this category are cash, cash equivalents and restricted cash.

  - Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

  - Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs), in this category are the derivative financial instruments.

19. Capital

Common stock at par value (historical pesos) as of December 31, 2012, 2011 and 2010 is as follows:

Series	Number of shares
Series A	100
Series B	61,751,337
Total	61,751,437

Common stock at par value (historical pesos) as of January 1, 2010 is as follows:

Series	Number of shares
Series A	100
Series B	46,845,817
Total	46,845,917

The historical capital amounted to $716,942,825, which consisted of Series “A” common shares, without par value, corresponding to fixed capital without right of withdrawal and Series “B” shares corresponding to variable capital, which subscription is unlimited.

The Series "A" and "B" shares can be purchased by individuals or corporations, domestic or foreign, in all cases in line with the provisions of the Foreign Investment Law. Both series of shares are entitled to one vote and give their holders the same rights and obligations.

Retained earnings include the statutory legal reserve. The General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason.

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

The balances of the stockholders’ equity tax accounts as of December 31 are:

	2012	2011	2010
Contributed capital account	$ 2,176,734,089	$ 2,101,727,029	$ 2,024,428,185
Net tax income account (CUFIN)	15,244,360	14,677,236	14,137,267
Total	$ 2,191,978,449	$ 2,116,404,265	$ 2,038,565,452

20. Earnings per share

The Entity does not have any potentially dilutive instruments, for which reason basic and diluted earnings per share are equal.

	2012 Pesos per share	2011 Pesos per share	2010 Pesos per share
Basic and diluted earnings per share	$ 0.3885	$ 0.3481	$ 0.1926

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	2012	2011	2010
Profit for the year attributable to owners of the Entity	$ 23,990,746	$ 21,497,314	$ 9,744,255
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	61,751,437	61,751,437	50,572,297

21. Hotel operating costs and expenses

	2012	2011	2010
Room expenses	$ 131,371,731	$ 110,694,158	$ 78,530,533
Payroll	86,332,663	54,169,793	45,500,354
Administrative and general expenses	82,942,020	70,639,861	61,606,229
Promotional and sales expenses	29,186,232	25,934,842	29,727,573
Utilities	55,507,612	47,772,197	32,705,982
Maintenance expenses	43,454,710	34,395,845	26,849,588
Property taxes	4,588,553	4,998,689	3,701,934
Insurance	4,117,230	3,500,374	4,265,116
Corporate expenses	16,910,405	16,597,572	7,833,625
Rent	45,256,089	38,918,510	34,961,323
Others	2,686,091	2,199,199	-
Total	$ 502,353,336	$ 409,821,040	$ 325,682,257

22. Selling and administrative expenses

	2012	2011	2010
Payroll	$ 87,972,065	$ 70,205,339	$ 62,923,455
Agents' commissions	5,006,731	3,360,007	2,569,186
Legal and professional fees	6,444,937	2,547,606	3,827,587
Travel expenses	2,417,761	2,061,653	2,061,739
Advertising	20,054,178	16,124,136	14,288,659
Equipment rental	5,333,238	4,431,027	4,093,495
Phones and communication	1,765,727	2,322,996	2,195,308
Maintenance	1,538,871	2,278,533	2,837,744
Rental of corporate office	6,495,467	5,738,961	5,590,169
Others	10,511,869	4,084,749	2,683,093
Total	$ 147,540,835	$ 113,155,007	$ 103,070,435

23. Other expenses

In 2011, this caption included the creation of a reserve related to an advance payment of $6,921,135 for 898 tons of steel that were purchased in previous years, but have not been delivered by the supplier, offset by a purchase gain of $3,184,753 on the acquisition of a business and a gain on the exchange of assets of $11,478,977. In 2012 and 2011 the remainder of the account is comprised of insurance recoveries, payment of fines and penalties related to tax payments and gains and losses on the disposal of fixed assets, among others.

24. Transactions and balances with related parties

Balances and transactions between the Entity and its subsidiaries, which are related parties of the Entity, have been eliminated in consolidation and are not disclosed in this note.

Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year was as follows:

	2012	2011	2010
Short-term benefits	$ 43,291,692	$ 37,989,366	$ 33,959,472

The compensation of management and key executives is determined by the Compensation Committee based on the performance of individuals, levels of responsibility and decision making, considering as a reference studies made by executive compensation consultants and market trends.

25. Leases – the Entity as a lessee

The Entity has entered into an operating lease, denominated in U.S. dollars, for the building in which its corporate headquarters are housed, which had an original term that expired in 2011, with the option of two automatic renewals for a period of three years each. In 2011, the automatic renewal occurred. In addition to rental payments, the Entity is required to pay USD$3,055 as a monthly maintenance fee. Rental payments are adjusted annually based on annual inflation in the United States of America.

In January 2008, the Entity entered into another operating lease for an additional location for its headquarters. The lease term is a period of five years from April 2008, with a monthly rent in U.S. dollars, with annual increases equal to inflation in the United States of America, as well as a monthly fee for maintenance.

Additionally, the Entity has entered into operating leases over certain hotel properties, which charge a fixed monthly rent based on the total project investment, adjusted annually for inflation plus, in some cases, contingent rental payments determined as a percentage of the total revenue generated by the hotel. Rental payments are denominated in local currency. The leases have terms of 15 years from the opening date of the hotel, renewable for a period of five years.

For the years ended December 31, 2012, 2011 and 2010, total rental expense was as follows:

- Payments recognized as an expense

	2012	2011	2010
Minimum lease payments	$ 44,165,478	$ 31,980,412	$ 31,106,441
Contingent rent	7,586,078	12,677,059	9,445,051
	$ 51,751,556	$ 44,657,471	$ 40,551,492

- Non-cancellable operating lease commitments

	2012	2011	2010
1 year or less	$ 42,393,973	44,165,478	$ 31,980,412
More than 1 to 5 years	192,310,945	198,014,234	195,993,100
More than 5 years	216,414,174	260,579,652	297,020,707
	$ 451,119,092	$ 502,759,364	$ 524,994,219

26. Segments

The operating segment information is presented based on the manner in which the Chief Executive Officer and the Board of Directors assesses economic performance and operating results of the Entity as well as the manner in which they assign resources to each segment. As a result of consolidation of the subsidiaries controlled by the Entity, intercompany transactions between the operating segment of the Entity are eliminated, which are shown in a separate column within the segment information below.

An operating segment is a component of an Entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the Management and the Board of Directors with respect to both performance evaluation and resource allocation, and for which discrete financial information is available. The Entity's reportable segments below are based on its operating segments.

For the year ended December 31, 2012

Statement of profit and other comprehensive income data:	Hotel operation	Hotel management	Total	Eliminations	Total Consolidated
Total revenues	$ 899,353,805	$ 218,116,073	$1,117,469,878	$ (185,266,586)	$ 932,203,292
Costs and expenses (excluding depreciation)	(687,619,922)	(147,540,835)	(835,160,757)	185,266,586	(649,894,171)
Profit before other non-recurring operating expenses and depreciation:	211,733,883	70,575,238	282,309,121	-	282,309,121
Other expenses and expenses associated with opening of new hotels	(14,871,672)	-	(14,871,672)	-	(14,871,672)
Profit before depreciation:	196,862,211	70,575,238	267,437,449	-	267,437,449
Depreciation	(144,498,459)	-	(144,498,459)	-	(144,498,459)
Operating profit	$ 52,363,752	$ 70,575,238	$ 122,938,990	$ -	$ 122,938,990

For the year ended December 31, 2011

Statement of profit and other comprehensive income data:	Hotel operation	Hotel management	Total	Eliminations	Total Consolidated
Total revenues	$ 692,772,701	$ 170,501,251	$ 863,273,952	$ (148,225,980)	$ 715,047,972
Costs and expenses (excluding depreciation)	(558,047,020)	(113,155,007)	(671,202,027)	148,225,980	(522,976,047)
Profit before other non-recurring operating expenses and depreciation:	134,725,681	57,346,244	192,071,925	-	192,071,925
Other expenses and expenses associated with opening of new hotels	(15,907,471)	-	(15,907,471)	-	(15,907,471)
Profit before depreciation:	118,818,210	57,346,244	176,164,454	-	176,164,454
Depreciation	(107,750,834)	-	(107,750,834)	-	(107,750,834)
Operating profit	$ 11,067,376	$ 57,346,244	$ 68,413,620	$ -	$ 68,413,620

For the year ended December 31, 2010

Statement of profit and other comprehensive income data:	Hotel operation	Hotel management	Total	Eliminations	Total Consolidated
Total revenues	$ 579,395,630	$ 138,227,407	$ 717,623,037	$ (114,268,237)	$ 603,354,800
Costs and expenses (excluding depreciation)	(439,950,494)	(103,070,435)	(543,020,929)	114,268,237	(428,752,692)
Profit before other non-recurring operating expenses and depreciation:	139,445,136	35,156,972	174,602,108	-	174,602,108
Other expenses and expenses associated with opening of new hotels	(6,516,085)	-	(6,516,085)	-	(6,516,085)
Profit before depreciation:	132,929,051	35,156,972	168,086,023	-	168,086,023
Depreciation	(89,248,232)	-	(89,248,232)	-	(89,248,232)
Operating profit	$ 43,680,819	$ 35,156,972	$ 78,837,791	$ -	$ 78,837,791

27. Commitments

As of December 31, 2012, the Entity has commitments for the acquisition and construction of property, as follows:

a) Construction of buildings: $44,387,103.

b) Acquisition of property: US$6,698,450.

28. Contingencies

Additional taxes payable could arise on transactions carried out with related parties if the tax authority reviewing such operations considers the prices and amounts used by the Entity are not comparable to those used with or between independent parties.

29. Explanation of the transition to IFRS

The date of transition to IFRS is January 1, 2010. In the preparation of the first IFRS consolidated financial statements the Entity has applied IFRS 1, First-time Adoption of International Financial Reporting Standards. IFRS 1 generally requires the retrospective application of all standards and interpretations mandatory at the date of the first IFRS financial statements. However, IFRS 1 requires certain mandatory exceptions and permits other voluntary exemptions to retrospective application, in order to assist the Entity in its transition process.

At the transition date, the Entity applied the following mandatory exceptions; those not included were not applicable*:*

1. ***Estimates*** - The estimates at the date of transition are consistent with the estimates made under MFRS unless evidence exists that such estimates were made in error.

2. ***Non-controlling interests*** - The Entity prospectively applied certain requirements of IAS 27 (2008) *Consolidated and Separate Financial Statements* as of the transition date.

The Entity has elected to apply the following optional exemptions to the retrospective application of the IFRS as permitted by IFRS 1:

1. ***Business combinations*** - The Entity applied the business combinations exemption. Therefore, it has not adjusted the accounting for any business combinations that took place before the transition date.

2. ***Deemed cost*** - The Entity applied the deemed cost exemption and use fair value at the transition date as its deemed cost for certain land and buildings. For the remaining assets, it will utilize depreciated cost under IFRS, as adjusted to reflect revaluations recorded under MFRS as deemed cost at the transition date.

3. ***Employee benefits*** -The Entity applied the employee benefits exemption. Therefore, it recognized all of the accumulated actuarial gains and losses at the transition date.

The following reconciliations provide quantification of transition effects and the impact on stockholders' equity at the transition date of January 1, 2010 and December 31, 2010 and 2011, and net comprehensive income for the years ended December 31, 2010 and 2011, as shown below:

Reconciliations of stockholders' equity

	Note	December 31, 2011	December 31, 2010	January 1, 2010
Stockholders' equity in conformity with MFRS		$ 2,435,583,866	$ 2,306,536,330	$ 1,413,802,570
Revaluation of fixed assets	a)	1,015,101,650	1,015,101,650	1,015,101,650
Depreciation by components	b)	(12,478,150)	(5,634,176)	-
Recognition of actuarial losses and gains from labor liabilities and elimination of severance obligations	c)	7,452,164	6,638,933	3,744,943
Elimination of deferred PTU	d)	(1,044,108)	(497,903)	(816,682)
Adjustment for credit risk in derivative financial instruments	e)	(4,000,416)	(3,837,872)	(4,597,385)
Recalculation of interest under the effective interest method	f)	22,932,243	21,682,345	25,184,429
Purchase gain on business combination	g)	3,184,753	-	-
Gain on exchange of assets	h)	11,478,977	-	-
Subtotal		3,478,210,979	3,339,989,307	2,442,419,525
Deferred income tax effects	i)	(308,694,161)	(310,185,277)	(311,830,104)
Stockholders' equity in conformity with IFRS		$ 3,169,516,818	$ 3,029,804,030	$ 2,140,589,421

Reconciliations of consolidated comprehensive income

		2011	2010
Consolidated net (loss) income in conformity with MFRS		$ (516,108)	$ 16,012,519
Intercompany transactions	j)	191,919	1,162,208
Depreciation by components	b)	(7,035,892)	(6,796,384)
Recognition of actuarial losses and gains from labor liabilities and elimination of severance obligation	c)	699,596	2,671,797
Elimination of deferred PTU	d)	(546,205)	318,779
Adjustment for credit risk in financial instruments	e)	(162,544)	759,513
Recalculation of interest under the effective interest method	f)	1,249,898	(3,502,086)
Purchase gain on business combination	g)	3,184,753	-
Gain on exchange of assets	h)	11,478,977	-
Subtotal		8,544,394	10,626,346
Deferred income tax effects	i)	1,458,548	1,711,486
Consolidated net profit in conformity with IFRS		10,002,942	12,337,832
Recognition of actuarial losses and gains from labor liabilities		113,634	222,194
Effect of translation of foreign operations		5,979,335	-
Deferred income tax effects		32,568	(66,658)
Consolidated comprehensive income in conformity with IFRS		$ 16,128,479	$ 12,493,368

a) The Entity valued land and buildings at fair value determined by independent values at the transition date as its deemed cost upon transition to IFRS.

b) The Entity calculated depreciation by components for its fixed assets as of the transition date. The Entity concluded that only buildings are comprised of components.

c) At the transition date, the Entity recognized all accumulated actuarial gains and losses generated by its labor liabilities that were previously unrecognized under the "corridor approach" applied in MFRS, as an increase to the liability for employee benefits. The Entity also eliminated the liability for severance benefits, as they are considered termination benefits under IFRS, for which reason their recognition is not required.

d) The Entity eliminated the deferred PTU asset previously under MFRS, as it does not comply with recognition requirements under IFRS.

e) The valuation of derivative financial instruments under MFRS did not incorporate a credit risk adjustment, as is required by IAS 39 *Financial Instruments-Recognition and Measurement*. Therefore the Entity recalculated the valuation of derivative financial instruments.

f) The Entity recalculated amortized cost of its bank loans using the effective interest method required by IAS 39*, Financial Instruments-Recognition and Measurement*.

g) The Entity acquired a business in 2011. The excess of the fair value of the net assets acquired over the consideration transferred was recognized by reducing the value of the net assets acquired under MFRS. IFRS requires such excess to be recognized in results, rather than as a reduction to the fair value of the net assets acquired.

h) The Entity purchased 66% of the rights of a trust, of which it already owned 23%. The trust's only asset was land. This transaction was accounted for as a business combination under MFRS. Under IFRS, this transaction does not meet the characteristics of a business combination but rather is considered an exchange of assets. A gain was recognized upon the exchange under IFRS, which is recognized within the consolidated statement of income and other comprehensive income.

i) The Entity recalculated and recognized deferred taxes in accordance with IAS 12, *Income Taxes*, considering the adjusted amounts of assets and liabilities in conformity with IFRS.

j) Under MFRS, in order to present the results of the various operations of the Entity, certain intercompany transactions were not eliminated in the consolidated income statements. Under IFRS 10, *Consolidated Financial Statements*, such transactions are required to be eliminated.

In addition to the aforementioned adjustments, certain other adjustments were applied that did not impact total stockholders' equity or comprehensive income. As required under MFRS, through December 31, 2007, the Entity recognized the comprehensive effects of inflation on its assets and equity. Under IFRS, the effects of inflation are only recognized when the environment in which the Entity operates is considered hyperinflationary, which is generally when cumulative inflation for the three preceding years is close to or greater than 100%, among other factors. Mexico ceased being a hyperinflationary economy in 1997. Accordingly, the Entity eliminated the effects of inflation from 1997 through 2007 from its equity accounts, with a corresponding increase to retained earnings as of the date of transition. There was no net impact on stockholders' equity. The effects of inflation recognized on long-lived assets were not removed, as it was considered part of the cost of such assets at the date of transition, using the deemed cost exemption permitted by IFRS 1.

Under MFRS, the Entity presented the effects of other comprehensive income within the statement of changes in stockholders' equity. Under IFRS, such effects are required to be presented in one single statement with net profit, or in a stand-alone statement. The Entity elected to present other comprehensive income together in one single total comprehensive income statement.

The aforementioned adjustments did not impact the cash flows of the Entity.

Other difference in presentation

In conformity with the presentation requirements of IFRS 1, items of other income (expense) that under MFRS were classified outside of operating profit are presented within operating profit under IFRS.

30. Events after the reporting period

a. On January 14, 2013 the Entity acquired the non-controlling interest of Impulsora Plaza Baja Norte, S. A. de C. V. for $71,500,000.

b. On March 15, 2013 the Entity executed an investment agreement in which the subsidiary Promotora Hotelera City Express, S. A. de C. V. increased the variable portion of its equity by $386,772,104 due to the incorporation of new shareholders.

31. Authorization to issue the financial statements

The accompanying consolidated financial statements were authorized for issuance on April 5th, 2013, by Ing. Luis Eduardo Barrios Sánchez, CEO, Lic. Roberto Palacios Prieto, CFO and C.P. Juan Carlos Pioquinto Vázquez, Director of Administration, and consequently do not reflect events after this date.

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ISSUER

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