2016 Annual Report

Santa Fe
grupo | hotelero

SOLID FOUNDATIONS
CONTINUOUS GROWTH

OUR BASES,
OUR STRENGTH.

We are one of the leading companies in the hospitality industry in Mexico, focused on the acquisition of urban and resort hotels in the major tourist destinations in Mexico, conversions of properties for new uses, and execution of operation and development contracts in locations that justify it.

Our current platform includes own brands such as Krystal Resorts, Krystal Grand, Krystal Beach and Krystal Urban, franchises, and licensed brands such as Hilton.

The diversity of our hotel portfolio provides better stability in revenues and profits due to the counter-cyclical nature of seasonality between urban and beach hotels. In addition, this diversity allows us to implement cross-sales between our customer base.

Our management team has a long history of success in the hospitality industry in Mexico, with a combined experience of over 100 years. During their respective careers, the team has acquired, operated and developed more than 10,000 rooms in Mexico and Latin America.

Our business model is characterized by the multi-functional efficiency of our staff and strict control of costs that allow swift adaptation to and anticipation of the changing needs of the industry.

Our strategy is oriented towards seeking growth in our hotel platform in Mexico with a clear focus on the Krystal brand, prioritizing the principal national markets in four- and five-star category hotels. We are also focused on the efficient management of our portfolio of hotels and in fostering growth of sales and profits through the efficient optimization of assets.

CONTENTS

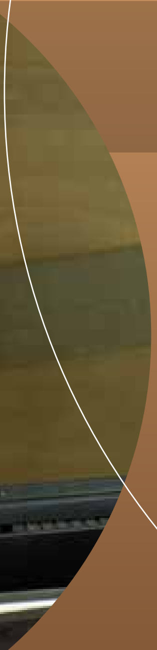
Krystal Monterrey
Monterrey, Nuevo León

MISSION

To ensure that our guests and clients enjoy pleasant and unforgettable experiences, through assciates who are passionate about the quality of service, which, coupled with good management, allows us to generate the returns expected by our partners, shareholders and investors.

VISION

To be recognized as one of the best hotel companies for our high profitability, professional ethics and trustworthiness, quality of our products and services, while working with partners who are proud to belong to the group.



Krystal Grand Punta Cancun
Cancun, Quintana Roo

CONSOLIDATED FINANCIAL RESULTS

Figures in thousand Mexican Pesos

INCOME STATEMENT	2016	2015	% VAR.
Room Revenue	**708,014**	555,730	27.4
Food and Beverage Revenue	**332,351**	268,851	23.6
Other Revenue from Hotels	**102,591**	84,940	20.8
Third-party Hotels' Management Fees	**78,209**	50,598	54.6
Total Revenue	**1,221,165**	960,119	27.2
Operating Costs and Expenses	**457,166**	384,231	19.0
Sales and Administrative	**320,489**	242,568	32.1
Property Expenses	**17,391**	14,508	19.9
Depreciation and Amortization	**112,058**	87,670	27.8
Total Costs and Expenses	**907,104**	728,977	24.4
Development and hotel opening expenses	**18,286**	13,165	38.9
Other non-recurring expenses	**5,860**	9,019	(35.0)
EBITDA	**426,119**	318,813	33.7
EBITDA Margin (%)	**34.9%**	33.2%	1.7 pt
Operating Income	**289,913**	208,958	38.7
Operating Income Margin (%)	**23.7%**	21.8%	1.9 pt
Net interest expenses	**(33,294)**	(31,764)	4.8
Net foreign currency exchange loss	**(59,471)**	(158,021)	(62.4)
Other financial costs	**(2,158)**	(780)	176.6
Net Financing Result	**(94,923)**	(190,565)	(50.2)
Undistributed income from subsidiaries, net	**2,491**	48	NA
Income before taxes	**197,481**	18,441	NA
Total income taxes	**37,262**	8,415	NA
Net Income	**160,219**	10,026	NA
Net Income Margin (%)	**13.1%**	1.0%	12.1 pt.

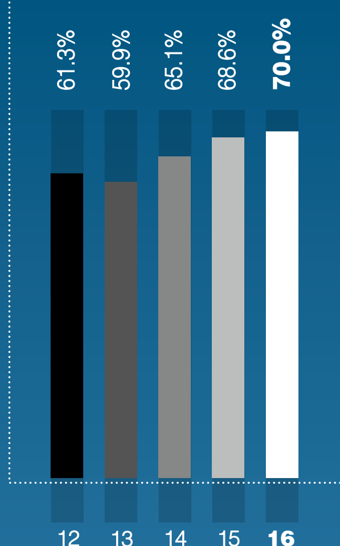
The total income continued to show sustained growth and for the year 2016 amounted to **PS. 1,221.2 million,** representing a **27.2%** increase compared to 2015.

ANOTHER YEAR OF POSITIVE RESULTS that allow us to move forward with firm steps.

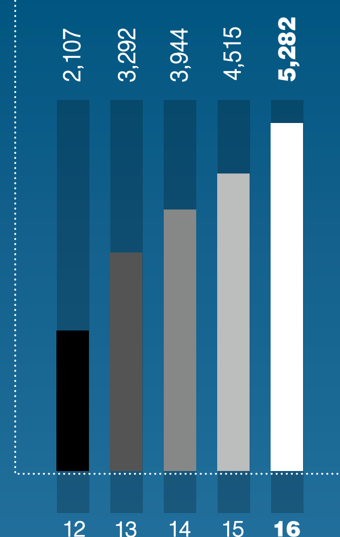
(1) Includes our own and third party hotels managed by the Company.

(2) Includes rooms currently in operation and under construction.

OCCUPANCY [1]

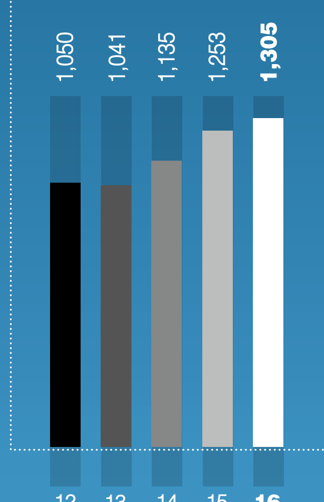


TOTAL NO. OF ROOMS [2]



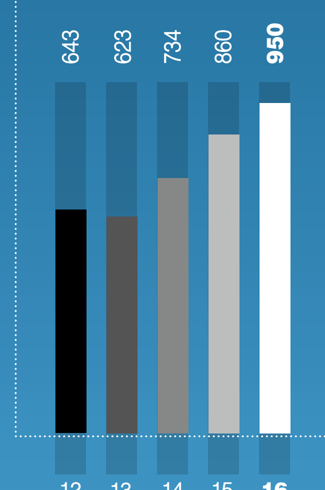
AVERAGE DAILY RATE [1] (ADR)

Pesos



REVENUES PER AVAILABLE ROOM [1] (RevPAR)

Pesos



4,324

ROOMS IN OPERATION,

and 958 rooms under construction in Mexico City, Cancun and Puerto Vallarta, with a total of 19 hotels and 5,282 rooms in 2016.

Krystal Grand Los Cabos
Los Cabos, Baja California Sur

17%

GROWTH IN KRYSTAL BRAND ROOMS IN 2016,

representing more than 570 rooms.

Krystal Satélite María Bárbara
Satélite, Estado de México

22%

GROWTH IN INVESTMENTS IN 2016.

More than PS. 729 million pesos will be invested during 2016 in construction projects, procurement, conversions and refurbishments.

Krystal Satélite María Bárbara
Satélite, Estado de México

SUSTAINABILITY
IS A KEY PART OF
OUR GROWTH.


Krystal Grand Punta Cancún
Cancún, Quintana Roo

MESSAGE FROM THE CHAIRMAN OF THE BOARD

Dear Shareholders

2016 was another great year for HOTEL where we continued to consolidate our growth and post higher than expected growth rates both in revenues and profitability. Halfway through the year we completed a follow-on offering which helped us to continue executing our expansion plans.

The increase in the number of tourists and the amount they spent reached record levels which have transformed Tourism into an engine for the Mexican economy. The Tourism sector has seen record growth rates. During 2016, GDP of the tourism sector grew ahead of the national average, reaching 8.9% of Mexico's GDP.

Mexico reached 35 million international visitors, generating more revenues for the country than Oil. Throughout 2016 we added two hotels to our portfolio, one acquisition and the other as a third-party owned hotel under management. These properties are completely in line with the profile of hotels we look for with unreplaceable location and high quality products, both in the urban sector. Additionally, we announced the expansion of three of our proprietary hotels that include 508 new rooms.

In June, we successfully carried out a global follow on public offer, strengthening our financial position as the Company's equity increased 88% compared to the prior year. This follow on public offer took place less than two years from the Initial Public Offering, evidence of the Company's ability to utilize the funds raised. The capital obtained will again be used to continue the execution of our expansion plans. As such, we expect to replicate the strong growth achieved since the IPO.

During the year, the number of rooms under our Krystal brand increased 17% which represents 575 rooms, reaching a total of 5,282 rooms under operation and in development.

Thanks to the effort put in by our coworkers and their commitment to results, we could reach outstanding results, where we exceeded our own expectations. We exceeded our 2016 EBITDA guidance by 14%.

At the beginning of 2017 we closed a large transaction to acquire 50% of two hotels in Los Cabos and Nuevo Vallarta that will be rebranded into Krystal Grand. Both locations are strategic for us as the growth projection of both destinations are very attractive and will solidify our portfolio with presence all the main Resort destinations in Mexico. With these projects, we will reach 23 hotels and 6,507 rooms and the The Krystal Grand brand will grow from 4 to 6 hotels.

We appreciate the trust and participation of our shareholders and we are convinced that we will reach our goals and become the leading hotel company in the country. We will accomplish this with the support of all of us who work at the company, with the clear mission of making our guest's stays be unforgettable experiences, which is the clear path to higher returns for our shareholders.

Carlos Gerardo Ancira Elizondo
Chairman of the Board of Directors

During 2016, GDP of the tourism sector grew ahead of the national average, reaching **8.9%** of Mexico's GDP.

MESSAGE FROM THE CEO

Dear Shareholders

2016 was another record year for the tourism and hotel sectors in Mexico. Just like in past years, we saw growth in almost all industry indicators. One data point that is worth mentioning is that foreigners spent over 20 billion dollars in tourism in the country, a 10% increase compared to last year. Also, international travelers continue growing importantly and domestic travelers have increased 20% per year for the last four years. In 2016 alone there were 226 million trips by Mexicans in the country of which 90 million stayed at a hotel. Travelers which flew increased at 10.7%, driven by a continuous expansion in connectivity. The countries Hotel occupancy surpassed 60% in the year and resorts reached 65%, both record numbers in the past five years. In the case of HOTEL, we have accomplished extraordinary results where we posted 70% occupancy considering our complete portfolio. We increased our revenues 27% which translated into a 34% increase in EBITDA. In terms of our RevPAR, it increased 13% driven by an increase in average daily rates.

In terms of our portfolio growth, we increased our rooms by 22% by adding the Krystal Urban Guadalajara and the Krystal Monterrey. We also broke ground on the construction of two five star properties under the Krystal Grand brand on Insurgentes in Mexico City. The first one is the Krystal Grand Suites which will have 200 rooms and is expected to open by 3Q17. The second one is the Krystal Grand Insurgentes located in front of the World Trade Center with 250 rooms and is expected to open in the second half of 2018. During the year, we also announced the expansion of 192 rooms in the Hilton Puerto Vallarta which represents a 74% increase in the hotels room inventory. In July, we announced the expansion of the Krystal Grand Cancun which contemplates a new tower with 100 suites which is expected to also open in 3Q17. In terms of past acquisitions, we have been able to improve the performance of our hotels and a clear example of that is the Krystal Satelite Maria Barbara which in 2016 posted more than a 35% increase in EBITDA.

An important part of our growth is due to the successful follow-on offering by which we raised more than 1.8 billion pesos in June of this year. With this offering we able to increase our capital by 88%, strengthening our financial position. In terms of the public float, we increased it from 27% to 46%, resulting in an important increase in liquidity which was reflected in our liquidity index as measured by the Mexican stock exchange where we reached the medium level. The resources raised by the follow-on will be mainly used to continue the company's expansion plans.

Without a doubt this year's results are a product of an enormous effort from our over 2,800 employees, for which I thank them all for their arduous work. I would also like to recognize the trust that investors have had in HOTEL to form part this growth story, you can be sure that we will continue to strive to meet our mission of our customers having enjoyable and unforgettable experiences.

Francisco Zinser Cieslik
CEO

2016 was another record year for the tourism and hotel sectors in Mexico.

We continue to position ourselves among the leading destinations in the country.

As of the end of 2016 we have a total of **17 hoteles** in operation.

We have a strategic presence from north to south of the country.

CANCÚN
1 KRYSTAL RESORT CANCÚN
2 KRYSTAL GRAND PUNTA CANCÚN
3 KRYSTAL URBAN CANCÚN

CDMX y área metropolitana
4 KRYSTAL GRAND REFORMA UNO
5 KRYSTAL URBAN AEROPUERTO CDMX
6 KRYSTAL SATÉLITE MARÍA BÁRBARA
KRYSTAL GRAND SUITES
KRYSTAL GRAND INSURGENTES

MONTERREY
7 HILTON GARDEN INN MONTERREY
8 HILTON GARDEN INN MONTERREY AEROPUERTO
9 KRYSTAL MONTERREY
AC BY MARRIOT DISTRITO ARMIDA

LOS CABOS
KRYSTAL GRAND LOS CABOS

NUEVO VALLARTA
KRYSTAL GRAND NUEVO VALLARTA

PUERTO VALLARTA
10 KRYSTAL RESORT PUERTO VALLARTA
11 HILTON PUERTO VALLARTA

GUADALAJARA
12 HILTON GUADALAJARA
13 KRYSTAL URBAN GUADALAJARA

IXTAPA
14 KRYSTAL RESORT IXTAPA

ACAPULCO
15 KRYSTAL BEACH ACAPULCO

PACHUCA
KRYSTAL PACHUCA

TABASCO
16 HAMPTON INN & SUITES PARAISO TABASCO

CIUDAD JUÁREZ
17 KRYSTAL URBAN CIUDAD JUAREZ

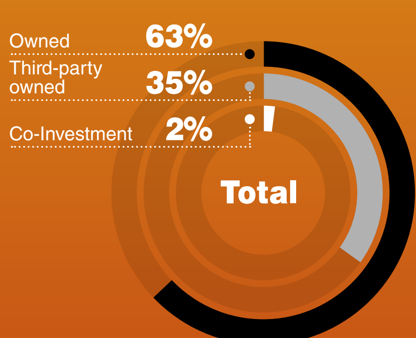
in operation
in expansion
under construction
opening 2017

HOTELS PORTAFOLIO

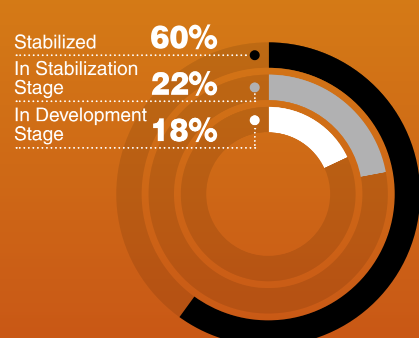
No.	HOTEL NAME	TOTAL ROOMS	PROPERTY	TYPE
1	Hilton Guadalajara	450	100%	Urban
2	Hilton Garden Inn Monterrey	150	100%	Urban
3	Krystal Urban Cd. Juárez	120	100%	Urban
4	Krystal Grand Reforma Uno	500	-	Urban
5	Krystal Urban Cancún	224	100%	Urban
6	Krystal Satélite María Bárbara	215	100%	Urban
7	Hilton Garden Inn Monterrey Aeropuerto	134	15%	Urban
8	Hampton Inn & Suites Paraíso Tabasco	117	-	Urban
9	Krystal Urban Airport Mexico City	96	-	Urban
10	Krystal Urban Guadalajara	140	100%	Urban
11	Krystal Monterrey	207	-	Urban
	SUBTOTAL URBAN	**2,353**		
12	Krystal Resort Cancún	502	-	Beach
13	Krystal Resort Ixtapa	255	-	Beach
14	Krystal Resort Puerto Vallarta	260	-	Beach
15	Hilton Puerto Vallarta Resort	259	100%	Beach
16	Krystal Beach Acapulco	400	100%	Beach
17	Krystal Grand Punta Cancún	295	100%	Beach
	SUBTOTAL RESORT	**1,971**		
	TOTAL IN OPERATION	**4,324**		
18	Krystal Grand Suites	200	50%	Urban
19	Krystal Grand Insurgentes	250	50%	Urban
	Expansion Krystal Grand Punta Cancún	100	100%	Beach
	Expansion Hilton Puerto Vallarta	192	100%	Beach
	Expansion Krystal Puerto Vallarta	216	100%	Beach
	TOTAL UNDER CONSTRUCTION	**958**		
	TOTAL 2016	**5,282**		
20	Krystal Pachuca	124	-	Urban
21	Krystal Grand Los Cabos	454	50%	Beach
22	Krystal Grand Nuevo Vallarta	215	50%	Beach
23	AC by Marriott Distrito Armida	168	-	Urban
	Expansion Krystal Grand Nuevo Vallarta	264	50%	Beach
	TOTAL AS OF MARCH 31, 2017	**6,507**		

Summary of the composition of the hotel portfolio in terms of **5,282 rooms** in operation and under development.

Ownership

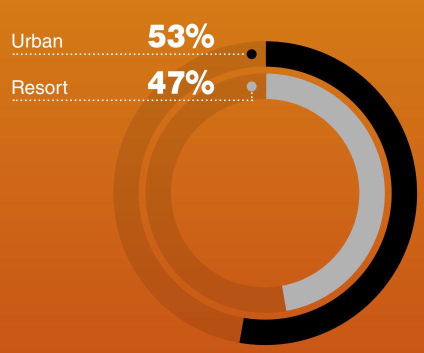


Stabilization Stage

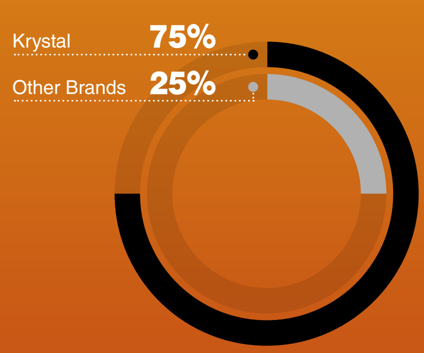


CATEGORY	MONTHS IN OPERATIONS	STABILIZED	CITY	STATE
Grand Tourism	>36	Yes	Guadalajara	Jalisco
4 star	>36	Yes	Monterrey	Nuevo León
4 star	>36	Yes	Ciudad Juárez	Chihuahua
Grand Tourism	>36	Yes	Ciudad de México	Ciudad de México
4 star	25	In Process	Cancún	Quintana Roo
5 star	20	In Process	Estado de México	Estado de México
4 star	17	In Process	Monterrey	Nuevo León
4 star	15	In Process	Paraíso	Tabasco
4 star	13	In Process	Ciudad de México	Ciudad de México
4 star	10	In Process	Guadalajara	Jalisco
5 star	6	In Process	Monterrey	Nuevo León
5 star	>36	Yes	Cancún	Quintana Roo
5 star	>36	Yes	Ixtapa	Guerrero
5 star	>36	Yes	Puerto Vallarta	Jalisco
Grand Tourism	>36	Yes	Puerto Vallarta	Jalisco
4 star	>36	Yes	Acapulco	Guerrero
Grand Tourism	>36	Yes	Cancún	Quintana Roo
5 star	Estimated Opening 3T-17		Ciudad de México	Ciudad de México
Grand Tourism	Estimated Opening 1H-18		Ciudad de México	Ciudad de México
Grand Tourism	Estimated Opening 3T-17		Cancún	Quintana Roo
Grand Tourism	Estimated Opening 4T-17		Puerto Vallarta	Jalisco
5 star	Estimated Opening 4T-17		Puerto Vallarta	Jalisco
4 star	Estimated Opening 1T-17		Pachuca	Hidalgo
Grand Tourism	Estimated Opening 1T-17		Los Cabos	Baja California Sur
Grand Tourism	Estimated Opening 1T-17		Nuevo Vallarta	Nayarit
4 star	Estimated Opening 2T-19		Monterrey	Nuevo Leon
Grand Tourism	Estimated Opening 4T-17		Nuevo Vallarta	Nayarit

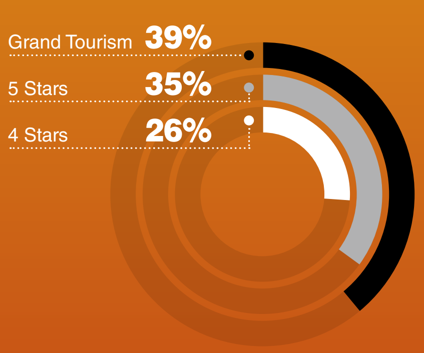
Segment



Other Brands



Category



BRAND SEGMENTATION

KRYSTAL GRAND

OUR TOP RANGE OF HOTELS

They are located in major cities and the country's most important tourist destinations. We offer a Gran Turismo experience, with products and services of the highest quality, for the discerning traveler. They are a benchmark in each of the destinations in which they operate.

KRYSTAL hotel & resort

THE TRADITIONAL KRYSTAL QUALITY

In its five-star category it is found in the country's main destinations. This brand, with its 35-year history, has undergone major refurbishment of its hotels in recent years and has established itself as one of the favorites among Mexicans as well as international travelers who are looking to discover the local character. It offers a wide range of choices for relaxation, entertainment and business.

KRYSTAL GRAND
"Feel Special"

KRYSTAL
hotels and resorts
"Trips that make sense"

THE LATEST EVOLUTION OF THE KRYSTAL FAMILY

This is focused on the increasingly demanding and productive business traveler. Guests are looking for a modern experience in unique locations and a personalized service. In response we offer a comfortable and functional product which allows our guests to get the most out of their time.

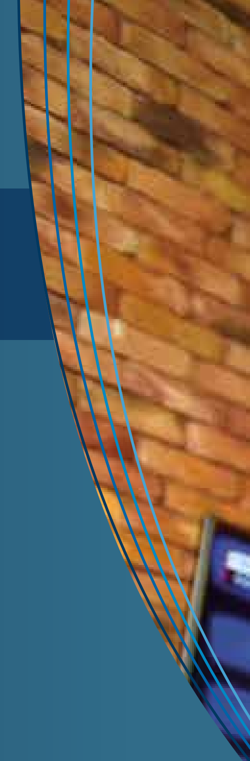
RECENTLY CREATED

This is the most family-oriented brand. It focuses on providing an unforgettable experience for the youngest members of the family. Within the four-star segment it is a great choice in beach destinations.

KRYSTAL URBAN
"Redefining Business"

KRYSTAL BEACH
"Family Getaway"

THE KRYSTAL BRAND



The growth and momentum that we continue to give to the Krystal brand have allowed us to lay the groundwork for positioning our hotels among the best-known brands at the national level, and as part of our expansion plan, we continue the works at the Krystal Grand Insurgentes, Krystal Grand Suites; both located in one of the main shopping and tourist areas of Mexico City, as well as with the openings of the Krystal Grand Los Cabos and Krystal Grand Nuevo Vallarta.

Two of the most important events that we had in the year for the brand were: the opening of the Krystal Urban Guadalajara as our own hotel and obtaining the administration of the Krystal Monterrey.

Krystal Monterrey
Monterrey, Nuevo León

54.6%

Growth in fees for management of third-party hotels.

KRYSTAL REWARDS®

Our “Krystal Rewards” Loyalty Program continues to grow each year, contributing to generate recurring sales and offering unique benefits to all our guests.

Krystal Urban Guadalajara
Guadalajara, Jalisco

INVESTMENTS

In addition to the construction of the Krystal Grand Insurgentes, Krystal Grand Suites and the upcoming openings of the Krystal Grand Los Cabos and Krystal Grand Nuevo Vallarta, we are proceeding with expansion of the Krystal Grand Punta Cancun and acquiring property for the expansion of the Hotel Hilton Puerto Vallarta. Likewise, we are carrying out major renovations of the Krystal Hotels Satélite María Bárbara, Hilton Guadalajara and Krystal Urban Cancun.

At Grupo Hotelero Santa Fe we will continue with an aggressive plan for investment in the construction and acquisition of new hotels, as well as extensions, renovations and remodeling of the fixed assets in a routine manner.

In 2016 expansion began of the Hilton Puerto Vallarta and the Krystal Grand Punta Cancun to increase their installed capacity to

192 and 100

suites respectively.

Hilton Puerto Vallarta
Puerto Vallarta, Jalisco

Income from food and beverages continues to deliver excellent results year on year, and for 2016 we achieved **Ps. 332 million** in sales, which represents

growth of

23.6%

compared to the previous year.

Hilton Guadalajara
Guadalajara, Jalisco

The growth in the food and beverage revenue represented more than Ps. 332 million in 2016 and was driven by the evolution of our own stabilized hotels, mainly by improvements to the centers of consumption in the Krystal Grand Punta Cancun, Hilton Guadalajara and Hilton Puerto Vallarta hotels. The remaining percentage came from the performance of our own hotels in the stabilization phase, and the addition of the Krystal Urban Guadalajara hotel, which was not part of the portfolio at the end of 2015.

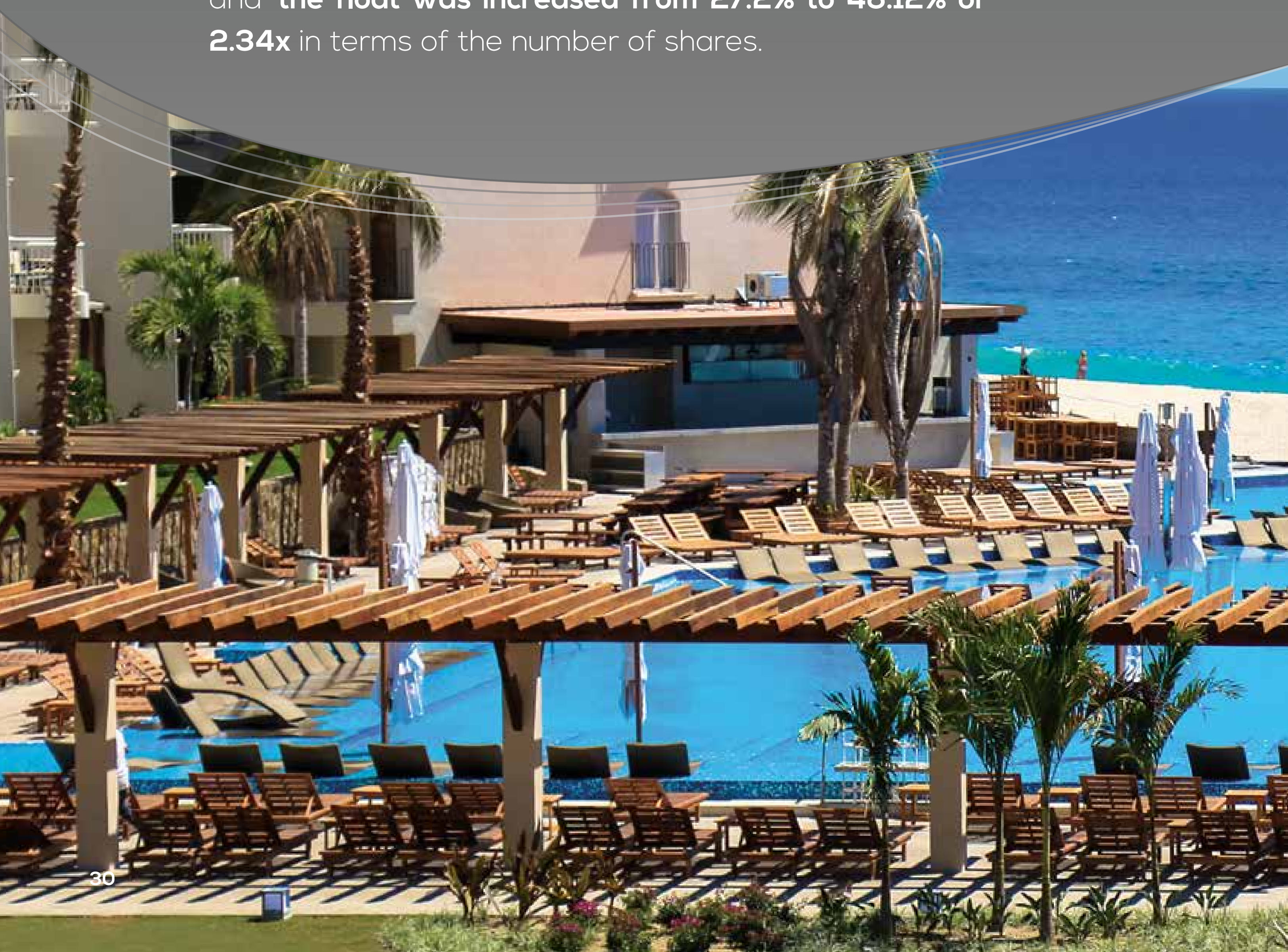
Innovative concepts, great care in the preparation and presentation of the food, high standards of quality in all our raw materials and refurbished spaces with great design and decor, have led our centers of consumption to significantly increase their sales and to place then at a level of quality that is worthy of the most demanding tastes.

FOLLOW-ON OFFERING

The Follow-On Offering held in June 2016 was for **215.58** million shares at Ps. 8.5 per share or **Ps. 1,832.5 million** to continue our expansion plan, which was over-subscribed by a factor of 2x.

Capital increased by 88.1%, strengthening our financial position.

Shares increased from **275.50** million to **491.08** million and **the float was increased from 27.2% to 46.12% or 2.34x** in terms of the number of shares.



Increase in the daily volume since the subsequent public offering:

13x

Krystal Grand Los Cabos
Los Cabos, Baja California Sur

SUSTAINABILITY

We are committed to sustainability through our relationship with our stakeholders and the generation of inter-institutional links with a vocation and spirit of service, positive attitude, honesty and loyalty.

Our commitment to Sustainability

We have expressly stated our rejection of all forms of discrimination, mistreatment or abuse of any living being, we are committed to best practices in the sector, reducing environmental impact, transparency and ethical performance as well as the development of communities in which we operate. Similarly, we promote, develop and exercise social responsibility for:

- Achieving social interest and strategic objectives.
- Managing the company with the principles defined by the Group's Values, which must be present in any business project developments.
- Establish stable and equitable links with stakeholders.
- Managing risks and business opportunities arising from the changing environment in which the company operates.

More than 2,600
committed employees

The human capital of our group is our main asset. We maintain and expand our talent development program with comprehensive training, highly focused on the multiple skills of our partners to provide them with career paths and growth within the company. At the end of 2016 we had an average ratio of 0.6 employees per room. In April, on the basis of our staff surveys, we achieved the recognition Super Empresas Expansion 2016.

- Transmitting the social value of the company in each hotel under our operation, to merge economic, social and environmental activity with the value of non-profit activities.

Sustainability Management Model

We seek continuous improvement in our social and environmental performance to benefit our stakeholders.Therefore, we have defined:

Economics

Our responsibility is this field is limited to ethical and proactive actions with:

- Our Partners and Shareholders, providing certainty and financial security on their investment, seeking to maximize profits in the short, medium and long term;
- Our Customers, by giving them the best quality, with a high commitment to continuous improvement in our Hotels.
- Our Suppliers, establishing excellent working relationships based on transparency and honesty, complying fully with all commitments;
- Our Co-workers, by building work spaces with respect, social inclusion, personal and professional development, and by promoting self-improvement;
- Our Competitors, by creating spaces for an honest, ethical and healthy competitive market.

Corporate Social Responsibility is strategic and transversal to our operations. It strengthens our business decisions and long-term vision as Responsible Corporate Citizens pushing our actions to go beyond the legal minimum.


KRYSTAL

We have developed and implemented several policies for internal and external social development, such as our Gender Equality policy which promotes equal opportunities for men and women.

Community

Companies, like society itself, are not static. Competition and market forces require a company to adapt to changing circumstances, now a day companies are required to act responsibly as an integral entity of society, imposing good corporate behavior in the first instance.

Our Labor Inclusion Policy for elderly and / or disabled people, which promotes hiring excluded groups, and finally our support of the National Code of Conduct for the Protection of children and adolescents promoted by the Travel and Tourism sector, where we are committed to the task raised by the institutions responsible for the initiative.

Ethics

As part of our corporate practices, we provide resources to society, make positive use of our influence to manage various stakeholders participate in Social Responsibility activities and we contribute towards solving the problems of public interest in the communities where we operate.

Given the environmental, social and economic situations in the country, the Company helps to promote and generate cooperation between the organization and society. We work together with our employees so they are the main actors of social development in our communities, in line with our institutional values.

To promote these achievements we have trained 90% of our employees and 95% of new hires about our Code of Conduct. We have an ethics line called "Tips Anónimos" to strengthen our organizational culture.

Environment

In operational matters, we promote the efficient and responsible use of natural resources, our voluntary commitment is to exceed the standards in environmental matters. These include efficient water usage, water treatment, waste generation, energy efficiency and the use of environment friendly technologies including construction technology.

The Company has established various policies, regulations, procedures and programs that drive our performance and environmental commitment. We do what we can with the resources that we have available to the challenges.

We have also trained and involved more than 2600 employees and suppliers, so they are partakers of our culture and commitment to the present and future of the organization.

Impact Measurement

Various organizational layers have different indicators; during 2016 we began the process of definition and implementation of corporate indicators that directly affect the objectives of social responsibility. One of our commitments for 2017 is to establish a solid foundation of qualitative and quantitative indicators and make them comparable going forward. These indicators will show our sustainability performance and will be presented to our stakeholders.

Sustainability Communication

Since the beginning or our sustainability efforts, we have a Communication Plan that allows us to dialogue with our stakeholders, which is supported with actions, scope and results.

In this plan, the following tools are used:

- Our intranet portal, ACCESS
- Internet
- Email
- Mural
- Internal communication magazine Santa Fe New
- Ethics Line “Tips Anónimos”

We appreciate the contributions of our partners and employees who have contributed so much inform our corporate offices to each of the hotels in our network. With these contributions we have achieved goals thanks to the commitment and hard work of everyone involved, not only in terms of Social Responsibility, but the work they do every day, to create better business practices and strengthen our company.

We have a Communication Plan that allows us to dialogue with our stakeholders

PRIZES AND AWARDS

HIGH TECHNOLOGY

This is an award for the commitment to offer all guests the latest in communications technology and connectivity.

HOTELS THAT HAVE RECEIVED THIS AWARD ARE:

- Hilton Puerto Vallarta
- Krystal Ixtapa
- Krystal Grand Cancún
- Krystal Puerto Vallarta
- Hilton Guadalajara

AAA 3 DIAMOND AWARD AND AAA 4 DIAMOND AWARD

Granted by the American Automobile Association (AAA) to hotels and restaurants in the U.S., Canada, Mexico and the Caribbean, the AAA Diamond Award certification guarantees that the establishment offers the highest standards of luxury, quality and service.

HOTELS THAT HAVE RECEIVED THESE AWARDS ARE:

- Krystal Puerto Vallarta
- Hilton Puerto Vallarta
- Krystal Grand Punta Cancún

GOLD CROWN RCI

Designates hotels that have met or exceeded established standards in specific areas and procedures, including check in, check out, maintenance and cleanliness, and an evaluation of the resort's facilities.

HOTELS THAT HAVE RECEIVED THIS DESIGNATION ARE:

- Krystal Puerto Vallarta
- Krystal Cancún

CORPORATE GOVERNANCE

We will continue working to ensure our Corporate Governance is solid and robust, offering a clear vision with equality and transparency, protecting the interests of our shareholders and continue to be a driver and promoter of investments and the growth of the Group.

SHAREHOLDERS' ASSEMBLY

BOARD OF DIRECTORS

SOCIETY PRACTICES COMMITTEE

EXECUTIVE COMMITTEE

AUDIT COMMITTEE

MANAGEMENT TEAM

MANAGEMENT TEAM

From left to right (seated):

Francisco Medina Elizalde
General Manager

Carlos Gerardo Ancira Elizondo
Chairman of the Board of Directors

Francisco Zinser Cieslik
CEO

Enrique Martinez Guerrero
Chief Financial Officer

From left to right (standing):

Maximilian Zimmermann
Investor Relations Director

René Delgado Chapman
Legal Affairs Director

BOARD OF DIRECTORS

CARLOS GERARDO ANCIRA ELIZONDO
President

GUILLERMO ANCIRA ELIZONDO
Board Member

ARTURO JOSÉ SAVAL PÉREZ
Board Member

LUIS ALBERTO HARVEY MACKISSACK
Board Member

ROBERTO LANGENAUER NEUMAN
Board Member

FEDERICO MARTÍN DEL CAMPO FLORES
Board Member

DIEGO GUTIÉRREZ AGUAYO
Board Member

JERÓNIMO MARCOS GERARD RIVERO
Independent Board Member

WILFRIDO CASTILLO SÁNCHEZ MEJORADA
Independent Board Member

EDUARDO CHAILLO ORTIZ
Independent Board Member

EDUARDO DIAZ BALOGH
Independent Board Member

AUDIT COMMITTEE

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Member

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Member

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President

EDUARDO CHAILLO ORTIZ
Member

JERÓNIMO MARCOS GERARD RIVERO
Member

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL SITUATION

CONSOLIDATED FINANCIAL RESULTS

Figures in thousand Mexican Pesos

INCOME STATEMENT	2016	2015	% VAR.
Room Revenue	**708,014**	555,730	27.4
Food and Beverage Revenue	**332,351**	268,851	23.6
Other Revenue from Hotels	**102,590**	84,940	20.8
Third-party Hotels' Management Fees	**78,209**	50,598	54.6
Total Revenue	**1,221,165**	960,119	27.2
Cost and Operating Expenses	**457,166**	384,231	19.0
Sales and Administrative	**320,489**	242,568	32.1
Other Expenses	**17,391**	14,508	19.9
Depreciation*	**112,058**	87,670	27.8
Total Costs and Expenses	**907,104**	728,977	24.4
Total Non Recurring Expenses	**24,148**	22,185	8.8
EBITDA	**426,119**	318,813	33.7
EBITDA Margin (%)	**34.9%**	33.2%	1.7 pt
Operating Income	**289,913**	208,958	38.7
Operating Income Margin (%)	**23.7%**	21.8%	1.9 pt
Net Financing Result	**(94,923)**	(190,565)	50.2
Undistributed income from subsidiaries, net	**2,491**	48	NA
Income before taxes	**197,481**	18,441	NA
Total income taxes	**37,262**	8,415	NA
Net Income	**160,219**	10,026	NA
Net Income Margin (%)	**13.1%**	1.0%	12.1 pt

REVENUES

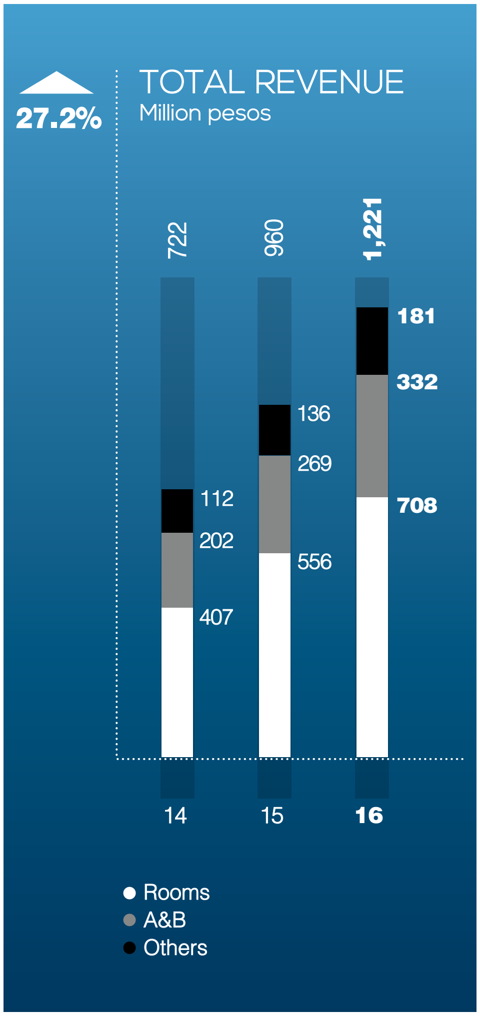
During 2016, Total Revenue increased 27.2%, from Ps. 960.7 million in 2015 to Ps. 1,221.2 million, driven by a 27.4% growth in Room Revenue, 23.6% in Food and Beverage, 20.8% in Other Revenue and 54.6% in Management Fees received related to third-party owned hotels.

Room revenue growth was driven by: i) the opening of the Krystal Urban Guadalajara hotel, which was added to the portfolio in 1Q16; ii) performance of the Krystal Satelite Maria Barbara and Krystal Urban Cancun, which are in the stabilization stages, and iii) the solid performance of stabilized hotels, including the Krystal Grand Punta Cancun.

During 2016, Room Revenue increased 27.4% compared to 2015, derived from the 10.4% increase in the number of rooms in operation of Company-owned hotels and a RevPAR improvement of 15.1%, which in turn was comprised of an 7.6% ADR increase and a 4.5 percentage point increase in occupancy.

The portfolio of stabilized Company-owned hotels experienced 50.0% growth in Room Revenue during 2016, derived from a 65.6% increase in the number of rooms, a 21.3% increase in ADR and a 5.9 percentage point decrease in occupancy, compared to 2015. The increase in the number of rooms was due to the Krystal Beach Acapulco and Krystal Grand Punta Cancun, which completed 36 months of operations. In accordance with the Company's classification, these hotels have gone from the stabilization stage to a stabilized property.

Company-owned hotels in the stabilization stage experienced decrease in the number of rooms, given the reclassification explained above, which was partially offset by the inclusion of the Krystal Urban Guadalajara to the portfolio. As a result of the new hotel mix in the portfolio of hotels in the stabilization stage, RevPAR decreased 13.7%, driven by a 17.1% ADR decrease and a 2.6 percentage point increase in occupancy.



Food and Beverage revenue increased 23.6%, from Ps. 268.9 million in 2015 to Ps. 332.4 million in 2016. Approximately half of this growth was attributed to the evolution of the stabilization stage presented mainly in food and beverage shopping points at the Krystal Grand Punta Cancun and Hilton Puerto Vallarta. The remaining percentage was due to the performance of Company-owned hotels in the stabilization stages and the inclusion of the Krystal Urban Guadalajara, which was not part of the 2015 hotel portfolio.

Other Income, which includes among other items, event room rentals, parking, laundry, telephone, and leasing of commercial spaces, increased 20.8%, from Ps. 84.9 million in 2015 to Ps. 102.6 million in 2016, driven by increased hotel activity.

Management Fees related to third-party owned hotels increased by 54.6% compared to 2015, due to a 37.6% growth in the number of rooms under operation during the period. RevPAR increase of 7.8% was driven by the 13.1% increase in ADR and a 3.6 percentage point decrease in occupancy as a result of the recent incorporation of 3 hotels, which are beginning their stabilization stage. The number of rooms in operation rose as a result of: i) the inclusion of the Krystal Monterrey hotel under the structure of third-party hotels under management, which was not part of the portfolio during 2015; and ii) the owner-driven expansion of the Krystal Resort Cancun and Krystal Grand Reforma Uno.

The Company sees an opportunity to continue its expansion plans by means of third-party operating contracts, mainly with the Krystal® brand without significantly impacting the operating structure.

COSTS AND EXPENSES

Operating Costs and Operating Expenses increased 19.0%, from Ps. 384.2 million in 2015 to Ps. 457.2 million in 2016. This increase was mainly in terms of direct costs, which were proportional to the revenue increase, as well as to higher department fees derived from the inclusion of Krystal Urban Guadalajara into the portfolio and from the stabilization curve of Krystal Grand Punta Cancun, Hilton Puerto Vallarta and the Krystal Urban Cancun Centro.

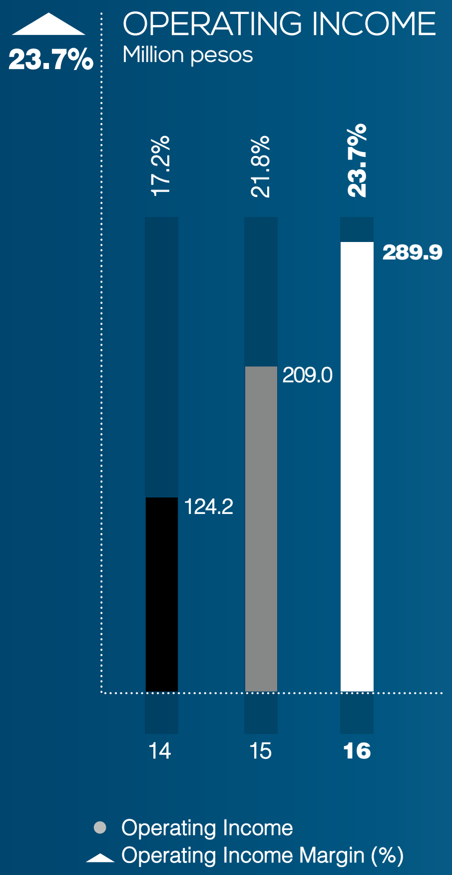
Administration and Sales Expenses rose 32.1%, from Ps. 242.6 million in 2015 to Ps. 320.5 million in 2016. Despite the nominal increase and as a result of operating leverage achieved from higher revenues, administration and sales expenses were equal to 26.2% of revenues, compared to 25.3% in 2015. This increase was due to i) expenses related to the executive stock option plan, ii) increases related to the strengthening of the management team and new corporate positions, which did not exist during the same quarter of last year, iii) the inclusion of Krystal Urban Guadalajara hotel, which was not in the portfolio during 2015 and iv) an increase in cost of sales, driven by higher operating activity.

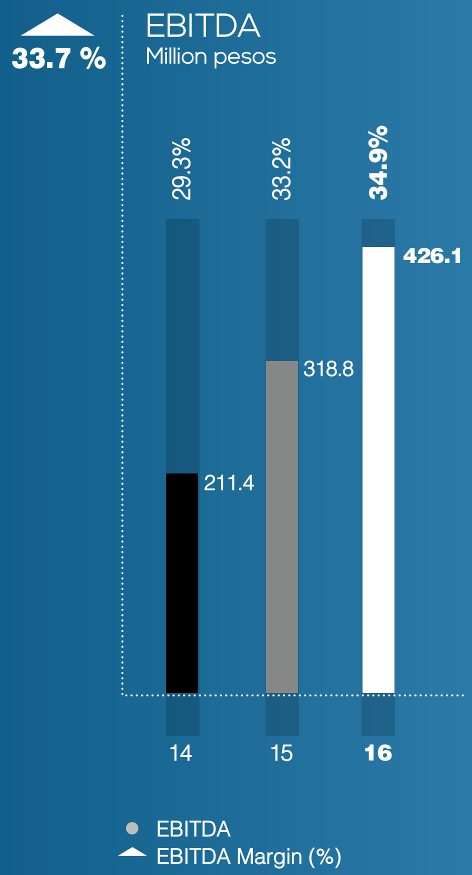
OPERATING INCOME

During 2016, operating income increased 38.7%, from Ps. 209.0 million in 2015 to Ps. 289.9 million. The combined effect of revenue growth, the inclusion of the Krystal Urban Guadalajara as a Company-owned hotel and Krystal Monterrey as a third-party hotel to the portfolio impacted the operating margin in a positive manner. Operating margin increased by 1.9 percentage points, from 21.8% in 2015 to 23.7% in 2016.

EBITDA

2016 EBITDA reached Ps. 426.1 million, compared to Ps. 318.8 million in 2015, an increase of 33.7%. 2016 EBITDA margin increased 1.7 percentage points, from 33.2% in 2015 to 34.9% in 2016.





(Figures in million Pesos)

INTEGRATION OF EBITDA	2016	2015	% Var.
Operating Income	289,913	208,958	38.7
(+) Depreciation	112,058	87,670	27.8
(+) Development and hotel opening expenses[4]	18,287	13,166	38.9
(+) Other Non-Recurring Expenses[5]	5,860	9,019	(35.0)
EBITDA	426,119	318,813	33.7
EBITDA Margin	34.9%	33.2%	1.7 pt

4) Expenses incurred in hotel expansions and openings, including new developments, and are related to the acquisition and research of acquisition opportunities.

5) Other non-recurring expenses, including settlement expenses and consulting fees related to the takeover of hotels acquired.

NET FINANCING RESULT

For 2016, Net Financing Result went from a Ps. 190.6 million loss in 2015 to a Ps. 94.9 million loss, mainly due to a FX gain in 3Q16.

NET INCOME

Net Income went from of Ps. 10.0 million in 2015 to Ps. 160.0 million in 2016 driven by an FX gain in 3Q16 combined with higher operating income.

CASH FLOW SUMMARY

By the end of 2016, operating cash flow reached Ps. 442.8 million, compared to Ps. 319.1 million reported in 2015, an increase of 38.7%. This increase was mainly due to Net Income growth and variations in working capital. In addition, the working capital growth was due to the Company's effort to increase sales via its direct distribution channels, which resulted in higher group sales and, therefore an increase in margins and higher accounts receivable.

Non-recurring items are considered non-operating and correspond to VAT paid for construction and remodeling, expenses related to the follow-on, and the foreign exchange gain derived from the acquisition of foreign currency.

Figures in thousand Pesos

CASH FLOW STATEMENT	2016	2015	% Var.
Cashflow from operating activities			
Net income	**159,988**	10,026	NA
Depreciation and amortization	**112,058**	87,670	27.8
Income taxes	**37,262**	8,415	NA
Unrealized gain (loss) in foreign currency exchange	**70,530**	156,413	(54.9)
Net interest expense	**33,294**	31,764	4.8
Other Financial Costs	**2,608**	1,927	35.3
Cashflow before working capital variations	**413,480**	296,216	39.6
Working Capital	**29,276**	22,905	27.8
Net operating cashflow	**442,756**	319,120	38.7
Non-recurring Items	**16,065**	19,344	(17.0)
Net cash flow from non-recurring items	**458,821**	338,465	35.6
Investment Activities	**(722,336)**	(357,354)	102.1
Financing Activities	**1,897,373**	(232,611)	NA
Net (decrease) increase in cash and cash equivalents	**1,633,858**	(251,501)	NA
Cash and equivalents at the beginning of the period	**97,729**	348,133	(71.9)
Cash and cash equivalents at the end of the period	**1,731,587**	96,632	NA
Cash in business acquisition	**-**	1,097	NA
Total Cash at the end of the period	**1,731,587**	97,729	1671.8

BALANCE SHEET SUMMARY

CASH AND EQUIVALENTS

By the end of 2016, the Company's cash and equivalents reached Ps. 1,731.6 million, mainly derived from the proceeds from the recent secondary global offering that took place during June 2016. Of the total of cash and equivalents, Ps. 825.5 million are peso-denominated and Ps. 973.5 million are dollar-denominated.

ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

This line item increased 19.9%, from Ps. 101.7 million in 2015 to Ps. 122.0 million in 2016; this was mainly due to the Company's effort to increase sales via its direct distribution channels, which resulted in higher group sales, as well as the inclusion of the Krystal Urban Guadalajara hotel, which was not part of the portfolio in 2015.

Figures in thousand Mexican Pesos

BALANCE SHEET SUMMARY	Dec-16	Dec-15	Var $	Var %
Cash and cash equivalents	**1,731,587**	97,729	1,633,858	NA
Accounts receivables and other current assets	**122,013**	101,750	20,264	19.9%
Creditable taxes	**157,205**	113,291	43,914	38.8%
Escrow deposit for hotel acquisition	**11,570**	14,660	(3,091)	(21.1%)
Total current assets	**2,022,374**	327,430	1,694,944	NA
Restricted cash	**67,486**	56,792	10,695	18.8%
Property, furniture and equipment	**3,452,931**	2,830,696	622,234	22.0%
Other fixed assets	**296,482**	294,986	1,496	0.5%
Total non-current assets	**3,816,899**	3,182,474	634,425	19.9%
Total Assets	**5,839,274**	3,509,904	2,329,370	66.4%
Current installments of long-term debt	**138,031**	91,726	46,305	50.5%
Other current liabilities	**212,454**	163,713	48,741	29.8%
Total current liabilities	**350,485**	255,439	95,046	37.2%
Long-term debt	**1,264,592**	1,023,284	241,308	23.6%
Other non-current liabilities	**79,263**	90,830	(11,567)	(12.7%)
Total non-current liabilities	**1,343,855**	1,114,114	229,741	20.6%
Total Equity	**4,144,934**	2,140,351	2,004,583	93.7%
Total Liabilities and Equity	**5,839,274**	3,509,904	2,329,370	66.4%

TAX CREDITS

The non-comparable increase in tax credit was mainly driven by expenses from follow-on amounting Ps. 46.7 million

TRUST DEPOSIT FOR THE HOTEL ACQUISITION

As part of the analysis of investment opportunities for hotels and real estate properties to carry out its expansion plan, during 2Q15 the Company created a management trust for the acquisition of Krystal Satelite Maria Barbara. As part of this acquisition, the Company agreed with its counterparty to withhold Ps. 31.8 million of the acquisition price to be used as a secured deposit to cover any liability or contingency. At the end of 2016, the Company has paid off Ps. 20.2 million. The remaining amount in trust deposit at the close of 2016 was Ps. 11.6 million.

PROPERTY, FURNITURE & EQUIPMENT

This line item was equal to Ps. 3,452.9 million at the end of 2016, a 22.0% increase compared to Ps. 2,830.7 million at the close of 2015. This increase was mainly driven by work in progress of the Krystal Grand Insurgentes hotel and the expansion work of the Krystal Grand Punta Cancun hotel, in addition to the use conversion carried out for the opening of the Krystal Urban Guadalajara hotel in March. In addition, the Company continues to carry out routine improvements, remodeling and renovation projects in its fixed assets. Notably, hotels that underwent renovations include Krystal Satelite Maria Barbara and Krystal Urban Cancun Centro, which was recently included in the Company's portfolio, as well as new shopping centers and hotel and improvements in our portfolio of Company-owned hotels.

Figures in thousand Mexican Pesos

CAPEX FOR THE PERIOD 2016	AMOUNT	% TOTAL
Hotels in development	503,873	69.1%
Use conversion	49,145	6.7%
Improvements in owned hotels	90,561	12.4%
Ordinary capex	51,012	7.0%
New point of sale	35,043	4.8%
Total Capex	**729,635**	**100.0**

NET DEBT AND MATURITY

Net Debt was negative Ps. 396.4 million at the end of 2016, which represented a Total Debt / EBITDA (LTM) ratio equal to -0.9x. Total Debt, of which 78.9% is U.S.-dollar denominated, and has an average cost of 4.10%. 21.1% is peso-denominated, with an average weighted cost of 9.23%. In addition, 90.2% of debt maturities are long-term.

To continue with its growth plans, the Company will continue to balance its debt between pesos and dollars. Both peso and dollar-denominated debt are hedged over reference rates (TIIE and LIBOR), with a strike price at 5.0% and 2.0%, respectively.

According to IFRS, the exchange rate used was Ps. 20.6640 / US$ as of December 31, 2016, as published in Mexico's Official Federal Gazette.

Figures in thousand Mexican Pesos			
DEBT*	PESOS	DOLLARS	**TOTAL**
Short Term	26,519	111,512	138,031
Long Term	269,103	995,489	1,264,592
Total	**295,622**	**1,107,001**	**1,402,623**
% Total	21.1%	78.9%	100.0%
Average rate of financial liabilities	9.23%	4.10%	5.18%
Cash and equivalents	816,428	915,158	1,731,587
Restricted cash	9,114	58,373	67,486
Cash and equivalents**	**825,542**	**973,531**	**1,799,073**
Net Debt	**(529,920)**	**133,470**	**(396,450)**
Net Debt / LTM EBITDA (as of 4Q16)			-0.9x

*Includes accrued interests and effect of financial instruments related to financial debt.
*Includes restricted cash related to bank debt.

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Independent Auditors' Report

(Translation from Spanish Language Original)

The Board of Directors and Stockholders
Grupo Hotelero Santa Fe, S. A. B. de C. V.:

OPINION

We have audited the consolidated financial statements of Grupo Hotelero Santa Fe, S. A. B. de C. V. and subsidiaries (the "Group" or "GHSF"), which comprise the consolidated statement of financial position as at December 31, 2016 and 2015, the consolidated statements of income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Grupo Hotelero Santa Fe, S. A. B. de C. V. and subsidiaries as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

RECOVERABILITY OF DEFERRED INCOME TAX ASSETS RELATED TO TAX LOSSES

(See note _19_to the consolidated financial statements)

Key Audit Matter	How the key matter was addressed in our audit
The Group has significant deferred income tax assets derived from tax losses. There is inherent uncertainty in the estimation of future tax benefits, which determines the extent to which deferred tax assets are recognized or not. The period over which the deferred tax assets are expected to be recovered can be extensive. As a result of the above, we consider this issue as a key audit matter.	Our audit procedures included assessing historical levels of taxable income, as well as comparing the assumptions used in the tax projections prepared by the Group. We evaluated the reasonability of significant tax assumptions, the period of reversal of the temporary differences and the expiration of tax losses, based upon our knowledge of the different environments in which the Group operates. Additionally, we assessed whether the Group's disclosures are appropriate in relation to the deferred tax asset balances and the level of estimate involved.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the Group's 2016 Annual Report to be filed with the National Banking and Securities Commission (CNBV) and the Mexican Stock Exchange, ("the Annual Report"), but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report is expected to be available to us after the date of this auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG CARDENAS DOSAL, S. C.
C.P.C. Carlos Alejandro Villalobos Romero
February 21, 2017.

Consolidated statements of financial position

December 31, 2016 and 2015
(Thousands of Mexican pesos)

Assets	Note	2016	2015
Current assets:			
Cash and cash equivalents	9	$ 1,731,587	97,729
Accounts receivable	10	84,788	75,137
Due from related parties	11	13,790	7,002
Other receivables	12	158,775	118,795
Inventories	13	8,579	6,754
Prepaid expenses		13,286	7,354
Deposit for hotel acquisition	7	11,570	14,660
Total current assets		**2,022,375**	**327,431**
Non-current assets			
Restricted cash	9	67,486	56,792
Property, furniture and equipment	14	3,452,931	2,830,696
Other assets	15	43,344	57,056
Investment in associated companies	3(k)	32,706	30,277
Deferred tax assets	19	112,438	95,247
Goodwill	7	107,994	112,405
Total non-current assets		**3,816,899**	**3,182,473**
Total assets		**$ 5,839,274**	**3,509,904**

Liabilities and Stockholders' Equity	Note	2016	2015
Current liabilities:			
Current installments of long-term debt	16	$ 138,031	91,726
Trade accounts payable	17	71,765	50,584
Other liabilities	17	53,663	64,770
Accruals	17	61,652	28,216
Due to related parties	11	-	56
Advances from customers		25,374	20,088
Total current liabilities		**350,485**	**255,440**
Non-current liabilities			
Long-term debt, excluding current installments	16	1,264,592	1,023,284
Employee benefits	18	3,867	3,306
Deferred tax liabilities	19	74,417	86,295
Other liabilities		979	1,229
Total non-current liabilities		**1,343,855**	**1,114,114**
Total liabilities		**1,694,340**	**1,369,554**
Stockholders' equity:	20		
Controlling interest:			
Capital stock		3,454,707	1,666,746
Stock repurchase reserve		(23,468)	(19,863)
Additional paid-in capital		80,000	80,000
Statutory reserve		190,493	190,493
Retained earnings		382,962	222,974
Total controlling interest		4,084,694	2,140,350
Non-controlling interest		60,240	-
Total stockholders' equity		**4,144,934**	**2,140,350**
Total liabilities and stockholders' equity		**$ 5,839,274**	**3,509,904**

Consolidated statements of income

For the years ended December 31, 2016 and 2015
(Thousands of Mexican pesos, except for earning per share)

	Note	2016	2015
Revenues:			
Rooms		$ 708,014	555,730
Food and beverages		332,351	268,851
Others	11	180,800	135,538
Total revenue		**1,221,165**	**960,119**
Departmental costs and expenses:			
Rooms		133,512	106,758
Food and beverages		194,672	161,888
Others		18,139	18,750
Total departmental costs and expenses		**346,323**	**287,396**
Departmental income		**874,842**	**672,723**
Indirect expenses:			
Administrative	11	210,028	170,756
Advertising and sales		115,104	77,624
Maintenance and energy costs		110,843	96,833
Total indirect expenses		**435,975**	**345,213**
Profit before property expenses and depreciation		**438,867**	**327,510**
Property expenses and depreciation:			
Property tax		5,381	5,191
Insurance		12,010	9,317
Depreciation	14	106,951	83,133
Amortization of other assets		5,107	4,537
Preoperating expenses		2,546	4,161
Expansion expenses		15,742	9,004
Others		1,217	3,209
Total property expenses and depreciation		**148,954**	**118,552**
Operating income		**289,913**	**208,958**

	Note	2016	2015
Finance cost:			
Interest expense, net	11	(33,294)	(31,764)
Foreign exchange loss, net		(59,471)	(158,021)
Other financial costs		(2,158)	(780)
Financial cost, net		**(94,923)**	**(190,565)**
Equity in earnings from associated companies		2,491	48
Profit before income taxes		**197,481**	**18,441**
Income taxes:	19		
Current		66,331	26,498
Deferred		(29,069)	(18,083)
Total income taxes		**37,262**	**8,415**
Net income		**$ 160,219**	**10,026**
Income attributable to:			
Controlling interest		159,988	10,026
Non-controlling interest		231	-
		160,219	10,026
Basic earnings per share	20(h)	**$ 0.410**	**0.037**

Consolidated statements of changes in stockholders´ equity

For the years ended December 31, 2016 and 2015
(Thousands of Mexican pesos)

	Note	Capital stock	Stock repurchase reserve
Balances as of December 31, 2014		**$ 1,666,746**	**(22,484)**
Repurchase of shares	20(c)	-	2,621
Net income		-	-
Balances as of December 31, 2015		**1,666,746**	**(19,863)**
Subsequent public offering of shares	20(a)	1,787,961	-
Repurchase of shares	20(c)	-	(3,605)
Initial recognition of-non controlling interest		-	-
Net income		-	-
Balances as of December 31, 2016		**$ 3,454,707**	**(23,468)**

Additional paid-in capital	Statutory reserve	Retained earnings	Total controlling interest	Non-controlling interest	Total stockholders' equity
80,000	**190,493**	**212,948**	**2,127,703**	**-**	**2,127,703**
-	-	-	2,621	-	2,621
-	-	10,026	10,026	-	10,026
80,000	**190,493**	**222,974**	**2,140,350**	**-**	**2,140,350**
-	-	-	1,787,961	-	1,787,961
-	-	-	(3,605)	-	(3,605)
-	-	-	-	60,009	60,009
-	-	159,988	159,988	231	160,219
80,000	**190,493**	**382,962**	**4,084,694**	**60,240**	**4,144,934**

Consolidated statements of cash flows

For the years ended December 31, 2016 and 2015
(Thousands of Mexican pesos)

	2016	2015
Cash flows from operating activities		
Net income	$ 160,219	10,026
Adjustment for:		
Depreciation	106,951	83,133
Amortization of other assets	5,107	4,537
Disposal of equipment	450	1,147
Items related to financing activities		
Unrealized foreign exchange loss	74,311	156,413
Interest income	(20,742)	(4,423)
Interest expense	54,036	36,187
Other financial costs	2,158	780
Income taxes	37,262	8,415
	419,752	**296,215**
Accounts receivable	(9,651)	(12,367)
Due from related parties	(6,788)	(2,122)
Other receivables	(39,980)	33,759
Inventories	(1,825)	(2,251)
Prepaid expenses	(5,932)	1,438
Trade accounts payable	21,181	17,298
Other liabilities	(11,800)	29,098
Accruals	33,436	11,622
Due to related parties	(56)	(213)
Advances from customers	5,286	5,399
Income taxes	(42,274)	(40,266)
Employee benefits	561	854
Net cash provided by operating activities	**361,910**	**338,464**

	2016	2015
Cash flows from investing activities:		
Change in restricted cash	(10,694)	171,369
Acquisition of property and furniture and equipment	(729,636)	(283,100)
Investment in associated company	(2,430)	(8,747)
Business acquisition	-	(205,265)
Other assets	8,605	(18,699)
Deposit for hotel acquisition	3,090	(14,660)
Investment in financial instruments	(2,886)	(2,675)
Interest received	20,742	4,423
Net cash used in investing activities	**(713,209)**	**(357,354)**
Cash flows from financing activities:		
Contributions from subsequent public offering of shares	1,768,759	-
Non-controlling interest contributions	60,009	-
Repurchase of shares	(3,605)	2,621
Proceeds from loans	190,356	120,000
Payments of loans	(90,479)	(323,083)
Interest paid	(47,790)	(32,149)
Net cash provided by (used in) financing activities	**1,877,250**	**(232,611)**
Net increase (decrease) in cash and cash equivalents	**1,525,951**	**(251,501)**
Cash and cash equivalents	97,729	348,133
Cash received upon acquisition	-	1,097
Effects from cash value changes	107,907	-
Cash and cash equivalents at December 31, 2016	**$ 1,731,587**	**97,729**

Notes to consolidated financial statements

December 31, 2016 and 2015. (in thousands of Mexican pesos)

These consolidated financial statements have been translated from the Spanish language original and for the convenience of foreign / English-speaking readers.

1. Reporting entity

Grupo Hotelero Santa Fe, S. A. B. de C. V. (the "Group" or "GHSF") was incorporated in Mexico City. GHSF is domiciled at Juan Salvador Agraz No. 65, 20th floor, Colonia Santa Fe Cuajimalpa, zip code 05348, Mexico City.

The main activity of the Group is acquire, under any legal title, shares, interests, participations, among others, of any type of corporations, both domestic and foreign, and invest in its equity, as well as participate in their management, liquidation, spin-off and merger. The Group was constituted on November 24, 2006 and began operations on January 1, 2010.

Initial public offering change of corporate name and subsequent public offering

On September 11, 2014, through a public offering of shares in Mexico, Grupo Hotelero Santa Fe, S. A. B. de C. V. increased its capital stock, issuing 75,000,000 ordinary, and nominative shares, without par value. (See note 21(a)). For this purpose, the Group adopted the stock exchange regime of variable capital stock, for which the Group was denominated "Grupo Hotelero Santa Fe, Sociedad Anonima Bursatil de Capital Variable" or its abbreviation "S.A.B. de C. V." The net proceeds obtained from the initial public offering, were used approximately 80% for future hotel acquisitions and 20% for general corporate purposes, including the capital expenditures fund. At the date of the initial public offering, approximately 25% of the shares were distributed amongst the public investor.

As mentioned in note 20(h), on June 17, 2016, through a subsequent public offering of shares in Mexico and Chile, Grupo Hotelero Santa Fe, S. A. B. de C. V. increased its capital stock, issuing 215,584,530 ordinary and nominative shares without par value. After this transaction, the outstanding shares amount to 491,084,530. The net proceeds from the subsequent public offering increased the capital stock and will be used for the development and acquisition of hotels. At the date, approximately 46% of the total shares of the Company are distributed amongst the public investor.

The principal activities of the Group's main consolidated subsidiaries are as follow:

- Hotelera SF, S. de R. L. de C. V. (Hotelera SF), whose main activity is to provide management services, hotel operation and any type of hotel service. All of its revenues are derived from management and hotel operation contracts. It was incorporated on January 8, 2010, and began operations on March 1, 2010.

- Servicios en Administración Hotelera SF, S. de R. L. de C. V. (SAH SF), whose main activity is to provide management services, hotel operation and any type of hotel service to its related parties. It was incorporated on January 8, 2010, and began operations on March 1, 2010.

- Administración SF del Pacífico, S. de R. L. de C. V., whose main activity is to provide management services, hotel operation and any type of hotel service to its related parties. It was incorporated on April 9, 2013 and began operations on April 25, 2013.

- Servicios e Inmuebles Turísticos, S. de R. L. de C. V. (SIT), whose main activity is to own a hotel located in Guadalajara, Jalisco, Mexico, which operates 450 rooms under the brand name “Hilton”. The operation of the hotel is carried out by Hotelera SF, which has management and hotel operation contracts that requires the payment of a fee over the revenues and an incentive fee over the operating income. SIT is a subsidiary of GHSF since March 1, 2010.

- Administración SF Occidente, S. de R. L. de C. V. (ASF Occidente), whose main activity is to provide management services, hotel operation and any type of hotel service to its related parties. It was incorporated on January 8, 2010, and began operations on March 1, 2010.

- Inmobiliaria en Hotelería Ciudad Juárez Santa Fe, S. de R. L. de C. V. (IH Ciudad Juárez), whose main activity is to acquire, under any legal title, shares, interests, participations, among others, of any type of corporations, both domestic and foreign, and invest in its equity, as well as participate in their management, liquidation, spin-off and merger. IH Ciudad Juárez is the holding company of Chartwell Inmobiliaria de Juárez, S. de R. L. de C. V. It was incorporated on January 8, 2010, and began operations on March 1, 2010.

- Inmobiliaria en Hotelería Guadalajara Santa Fe, S. de R. L. de C. V. (IH Guadalajara), whose main activity is to acquire, under any legal title, shares, interests, among others, of any type corporations, both domestic and foreign and invest in its equity, as well as participate in their management, liquidation, spin off and merger. IH Guadalajara is the holding company of Servicios e Inmuebles Turísticos, S. de R. L. de C. V. It was incorporated on January 8, 2010, and began operations on March 1, 2010.

- Chartwell Inmobiliaria de Juárez, S. de R. L. de C. V. (CI Juárez), whose main activity is to own a hotel located in Ciudad Juarez, Chihuahua, Mexico, which operates 120 rooms, under the brand name “Krystal Business Ciudad Juárez”. The operation of the hotel is carried out by Hotelera SF, which has management and hotel operation contracts that requires the payment of a fee over the revenues and an incentive fee over the operating income. CI Juárez is a subsidiary of GHSF since March 1, 2010.

- Inmobiliaria en Hotelería Monterrey Santa Fe, S. de R. L. de C. V. (IH Monterrey), whose main activity is to acquire, under any legal title, shares, interests, among others, of any type corporations, both domestic and foreign and invest in its equity, as well as participate in their management, liquidation, spin off and merger. IH Monterrey is the holding company of Chartwell Inmobiliaria de Monterrey, S. de R. L. de C. V. It was incorporated on January 8, 2010, and began operations on March 1, 2010.

- Chartwell Inmobiliaria de Monterrey, S. de R. L. de C. V. (CI Monterrey), whose main activity is to own a hotel located in Monterrey, Nuevo León, Mexico, which operates 150 rooms, under the brand name “Hilton Garden Inn”. The operation of the hotel is carried out by Hotelera SF, which has management and hotel operation contracts that requires the payment of a fee over the revenues and an incentive fee over the operating income. CI Monterrey is a subsidiary of GHSF since March 1, 2010.

- Administración SF del Norte, S. de R. L. de C. V. (ASF Norte), whose main activity is to provide management services, hotel operation and any type of hotel service to its related parties. It was incorporated on January 8, 2010, and began operations on March 1, 2010.

- Inmobiliaria en Hotelería Vallarta Santa Fe, S. de R. L. de C. V. (IH Vallarta), whose main activity is to own a hotel located in Puerto Vallarta, Jalisco, México, which operates 259 rooms, under the brand name “Hilton”. The operation of the hotel is carried out by Hotelera SF, which has management and hotel operation contracts that requires the payment of a fee over the revenues and an incentive fee over the operating income. It was incorporated on May 23, 2011, and began operations on October 1, 2012.

- Corporación Integral de Servicios Administrativos de Occidente, S. de R. L. de C. V. (CISAO), whose main activity is to provide management services, hotel operation and any type of hotel service to its related parties. It was incorporated on February 7, 2012 and began operations on February 9, 2012.

- Inmobiliaria en Hotelería Cancún Santa Fe, S. de R. L. de C. V. (IHC), whose main activity is to own a hotel located in Cancún, Quintana Roo, Mexico, which operates 295 rooms, under the brand name “Krystal Grand Punta Cancún”. The operation of the hotel is carried out by Hotelera SF, which has management and hotel operation contracts that requires the payment of a fee over the revenues and an incentive fee over the operating income. It was incorporated on May16, 2013, and began operations on September 24, 2013.

- Administración SF de Quintana Roo, S. de R. L. de C. V. (ASFQROO) whose main activity is to provide management services, hotel operation and any type of hotel service to its related parties. It was incorporated on June 20, 2013, and began operations on October 1, 2013.

- Inmobiliaria Hotelera Cancún Urban, S. de R. L. de C. V. (IHCU), whose main activity is to own a hotel located in Cancún, Quintana Roo México, which operates 212 rooms, under the brand name “Krystal Urban Cancún”. The operation of the hotel is carried out by Hotelera SF, which has management and hotel operation contracts that requires the payment of a fee over the revenues and an incentive fee over the operating income. It was incorporated on October 21, 2014, and began operations on December 16, 2014.

- Servicios Administrativos Urban Cancún, S. de R. L. de C. V. (SAUC), whose main activity is to provide management services, hotel operation and any type of hotel service to its related parties. It was incorporated on November 3, 2014, and began operations on December 16, 2014.

- SF Partners II, S. de R. L. de C. V. (SFP), whose main activity is to own a hotel located in Guadalajara, Jalisco México, which operates 140 rooms, under the brand name of “Krystal Urban Guadalajara”. SFP is a subsidiary of GHSF since March 24, 2014.

- Administración y Operación SF, S. de R. L. de C. V., whose main activity is to provide management services, hotel operation and any type of hotel service. It was incorporated on December 4, 2014. As of December 31, 2016, it has not started operations.

- Moteles y Restorantes María Bárbara, S. A. de C. V. (MRMB), whose main activity is to own a hotel located in the State of México, in the municipality of Naucalpan, which operates 215 rooms under the brand name “Krystal Satelite María Bárbara”. MRMB is a subsidiary of GHSF since May 7, 2015.

- Servicios Administrativos Tlalnepantla, S. A. de C. V. whose main activity is to provide management services, hotel operation and any type of hotel service to its related parties. It was incorporated on April 14, 2015; and began operations on July 1 2015.

- Inmobiliaria MB Santa Fe, S. A. de C. V. (IHMB), whose main activity is to acquire, under any legal title, shares, interests, participations, among others, of any type of corporations, both domestic and foreign, and invest in its equity, as well as participate in their management, liquidation, spin-off and merger. IHMB is the holding company of Moteles y Restorantes María Barbara, S. A. de C. V., and it was incorporated on March 4, 2015, and began operations on the same date.

- Hotelera Inmobiliaria Hotel Insurgentes 724, S. A. P. I. de C. V., (IH Insurgentes), whose main activity is to own a hotel currently under construction located in Mexico City. It was incorporated on May 15, 2015 and began the construction on January 22, 2016.

- Inmobiliaria K Suites 1991, SAPI de CV, (IKS), whose main activity is the participation, development, urbanization, establishment, opening, operation, management, lease, sublease, purchase, sale, marketing and exploitation of any property or business or property projects. It owns a hotel currently under construction in Mexico City. It was incorporated on May 11, 2016 and began the construction on the same date.

2. Basis of preparation

(a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB). The designation IFRS includes all standards issued by the IASB and related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

On February 21, 2017, Francisco Alejandro Zinser Cieslik, Chief Executive Officer, Francisco Medina Elizalde, Deputy Chief Executive Officer, Enrique Gerardo Martínez Guerrero, Chief Financial Officer and legal representative and José Alberto Santana Cobián, Chief Administration Officer, authorized the issuance of the accompanying consolidated financial statements and related notes thereto.

In accordance with the General Corporations Law and the Company's bylaws, the stockholders are empowered to modify the consolidated financial statements after issuance.

(b) Basis of measurementn

The consolidated financial statements have been prepared on the historical cost basis, with the exception of certain properties, furniture and equipment, which were recorded at their deemed cost as of February 28, 2010 (date of transition to IFRS) and the date of the acquisition mentioned in note 7. The deemed cost of such properties furniture and equipment was determined by appraisals performed by independent appraises (fair value) at that date.

(c) Functional and reporting currency

The accompanying consolidated financial statements are presented in Mexican pesos ("$" or "MXP"), Mexico's national currency, which is the Group's functional currency and the reporting currency in which these consolidated financial statements are presented. When reference is made to dollars or "USD", it means dollars of the United States of America. All financial information presented in pesos has been rounded to the nearest thousand amount. The exchange rate of the Mexican peso against the dollar, at December 31, 2016 and 2015 was $20.66 and $17.34, respectively. At February 21, 2017 the exchange rate was $20.41.

(d) Use of estimates and judgments

The preparation of the accompanying consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses.

We base our judgments, estimates, and assumptions on historical and forecast information, as well as regional and industry economic conditions in which we or our customers operate, changes to which could adversely affect our estimates. Although we believe we have made reasonable estimates about the ultimate resolution of the underlying uncertainties, no assurance can be given that the final outcome of these matters will be consistent with what is reflected in our assets, liabilities, revenues, and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Notes 3(g) and 14 - Useful lives of property, furniture and equipment
- Notes 3(i) and 10 - Allowance for doubtful receivables
- Notes 3(l) and 18 - Measurement of labor obligations
- Notes 3(t) and 19 - Deferred tax assets
- Notes 3(o) - Loyalty program

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the consolidated financial statements at December 31, 2016 is included in the following notes:

- Nota 3(v) y 24 - Contingencias

(e) Scope of consolidation

The consolidated financial statements include all entities that are directly controlled by the Group.

All Group entities prepare their financial statements as of December 31, 2016, applying the same accounting policies and valuation criteria. Intercompany transactions and balances relating to consolidated entities have been eliminated.

The following table summarizes the changes in the number of entities included in the consolidated financial statements.

Entities consolidated in the financial statements:

	Entities
December 31, 2014	**21**
Additions	5
December 31, 2015	**26**
Additions	1
December 31, 2016	**27**

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been consistently applied by the Group entities unless otherwise indicated.

(a) Basis of consolidation

(i) Business combination

The Group accounts for business combinations using the acquisition method as of the acquisition date, which is the date on which control is transferred to the Group. Control exists when the Group; (I) has power over the investee (II) has exposure, or rights, to variable returns from its involvement with the investee and (III) has the ability to use its power over the investee to affect the amount of the Group returns. The voting rights of the owners that are currency executable or convertible are considerate in the evaluation of control.

The Group measures the goodwill at the acquisition date as follows:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interest in the acquire; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire, less
- the net amount recognized (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain on purchase is recognized immediately as income.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. These amounts are generally recognized in profit or loss.

Transaction costs, other than those associated with the issuance of debt or equity securities, incurred by the Group in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingency consideration are recognized in profit or loss of the year.

(ii) Acquisitions of non-controlling interests

Acquisitions of non-controlling interest are accounted for as transactions with shareholders and therefore, no goodwill is recognized as a result of these transactions. Adjustments to non-controlling interests arising from transactions not involving loss of control are based on the proportionate amount of the net assets of the subsidiary.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date that control commenced until the date that the control ceases.

The accounting policies of subsidiaries have been adapted as required to conform to the accounting policies adopted by the Group.

Group's management determined that it has control over its subsidiaries when:

1) It has power over the investee.

2) It has exposure or rights to variable returns from its involvement with the investee.

3) It has the ability to use its power over the investee to affect the amount of the Group returns.

The equity interests of the principal subsidiaries of the Group are as follows:

GHSF Subsidiaries	Ownership	Principal Activity
Inmobiliaria en Hotelería Guadalajara Santa Fe, S. de R. L. de C. V.	100%	Property management
Inmobiliaria en Hotelería Monterrey Santa Fe, S. de R. L. de C. V.	100%	Property management
Inmobiliaria en Hotelería Ciudad Juárez Santa Fe, S. de R. L. de C. V.	100%	Property management
Inmobiliaria MB Santa Fe, S. A. de C.V.	100% (1)	Property management
Grupo Hotelero SF de México, S. de R. L. de C. V.	100%	Hotel management

GHSF Subsidiaries	Ownership	Principal Activity
Chartwell Inmobiliaria de Monterrey, S. de R. L. de C. V.	100%	Hotel management
Servicios e Inmuebles Turísticos, S. de R. L. de C. V.	100%	Hotel management
Chartwell Inmobiliaria de Juárez, S. de R. L. de C. V.	100%	Hotel management
Inmobiliaria en Hotelería Vallarta Santa Fe, S. de R. L. de C. V.	100%	Hotel management
Inmobiliaria en Hotelería Cancún Santa Fe, S. de R. L. de C. V.	100%	Hotel management
Inmobiliaria Hotelera Cancún Urban, S. de R. L. de C. V.	100%	Hotel management
SF Partners II, S. de R. L. de C. V.	100%	Hotel management
Moteles y Restaurantes María Barbara, S. A. de C. V.	100%	Hotel management
Hotelera SF, S. de R. L. de C. V.	100%	Hotel operation
Administración y Operación SF, S. de R. L. de C. V.	100%	Personnel services
Servicios en Administración Hotelera SF, S. de R. L. de C. V.	100%	Personnel services
Administración SF del Norte, S. de R. L. de C. V.	100%	Personnel services
Administración SF Occidente, S. de R. L. de C. V.	100%	Personnel services
Corporación Integral de Servicios Administrativos de Occidente, S. de R. L. de C. V.	100%	Personnel services
Administración SF del Pacífico, S. de R. L. de C. V.	100%	Personnel services
Administración SF de Quintana Roo, S. de R. L. de C. V.	100%	Personnel servicess
Servicios Administrativos Urban Cancún, S. de R. L. de C. V.	100%	Personnel services
Servicios Administrativos Tlalnepantla, Santa Fe S. de R. L. de C. V.	100% (1)	Personnel services
Inmobiliaria en Hotelería León Santa Fe, S. de R. L. de C. V.	100% (1)	Hotel management
Inmobiliaria en Hotelería Insurgentes 724, S. A. P. I. de C. V.	50% (1)	Hotel management
Inmobiliaria K Suites 1991, S. A. P. I. de C. V.	99.99% (2)	Hotel management

(1) Company consolidated since 2015
(2) Company consolidated since 2016.

(iv) Balances and transactions eliminated on consolidation

Intercompany balances and transactions as well as any unrealized gain (loss) arising from intercompany transactions, have been eliminated in the preparation of the consolidated financial statements.

Unrealized gains arising from transactions with equity method investees are eliminated against the investment to the extent of the Company´s interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Transactions in foreign currency are translated to the respective functional currencies of the Group entities at the exchange rate prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated to the functional currency at the exchange rate prevailing at that date. The foreign exchange gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for payments and effective interest during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reported period. Foreign exchange differences arising from the conversion are recognized in the profit or loss.

(c) Non-derivative financial instruments

Non-derivative financial instruments primarily include cash and cash equivalents, accounts receivable, other receivables, long-term debt, trade accounts payable and due to related parties.

(i) Non-derivative financial assets

The Group initially recognizes accounts receivable from customers and other accounts receivable on the date they are originated.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or transfers the rights to receive the contractual cash flows of the financial asset in a transaction in which substantially all the risks and benefits of ownership of the asset are transferred. Any interest in the transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group has the legal right to offset the amounts and intends either to settle on a net basis or, to realize the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents include cash balances and call deposits with original maturities of three months or less, bank accounts and foreign currencies. At the date of the consolidated financial statements, interest earned and valuation gains or losses are included in income statement as part of finance cost.

Restricted cash

Restricted cash is comprised of reserves for compliance with obligations arising from bank loans (See note 9).

Accounts receivable (including receivables from operation) and other accounts receivable

Accounts receivable from customers and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus the costs directly attributable to the transaction. Subsequent to the initial recognition, accounts receivable from customers, related parties and other accounts receivable are stated at amortized cost using the effective interest method, considering impairment or bad debt losses.

(ii) Non-derivative financial liabilities

The Group initially recognizes financial liabilities on the date of contract in which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group has the following non-derivative financial liabilities: short-term and long-term debt, trade accounts payable, accrued liabilities and due to related parties.

Such financial liabilities are initially recognized at fair value less costs directly attributable to the transaction. Subsequent to the initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Capital stock

Ordinary shares

Ordinary shares comprising the share capital of the Group are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are recognized as a deduction from equity, net of any tax effect.

Repurchase of shares

When equity shares recognized as part of the stockholders' equity are repurchased, the amount of consideration paid, which includes directly attributable costs, net of tax effect, is recognized as a reduction of the stockholders' equity. When shares are subsequently sold or re-issued, the amount received is recognized as an increase in stockholders' equity.

(d) Derivative financial instruments and hedge accounting

The Group recognizes all assets or liabilities arising from transactions with derivative financial instruments in the statement of financial position at fair value, regardless of its purpose. Fair value is determined based on recognized market prices and when quoted market prices are not observable, is determined based on valuation models using observed market data.

Changes in the fair value of derivative financial instruments not designated initially or within their maturity, as applicable, not qualifying for hedging purposes, are recognized in the profit and loss of the years as valuation effect of financial instruments, within finance cost. Changes in the fair value of derivative financial instruments that were formally designated and qualify as hedging instruments are recognized in accordance with the corresponding hedge accounting model.

In the case of transactions involving options or combinations of these, when these derivative financial instruments involving premiums paid and/or received are not designated or do not qualify for hedging purposes, these premiums alone or in combination are initially recognized at fair value, as either derivative financial instruments in assets (premiums paid) or liabilities (premiums received) respectively, taking the subsequent changes in the fair value of the premium as valuation effects of derivatives financial instruments under finance cost.

Derivative financial instruments are measured at fair value using valuation techniques and inputs commonly used within the financial environment.

(e) Inventories

Inventories are recorded at cost or net realizable value, whichever is lower. The cost of inventories is determined by the average cost method, which includes the expenses incurred for the acquisition of inventories.

The net realizable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

(f) Prepaid expenses

Include mainly prepaid insurance with less-than-a-year maturity and is amortized over the contractual period, and advances for the purchase of building materials for remodeling, which are received after the date of the consolidated statement of financial position.

(g) Property, furniture and equipment

(i) Recognition and measurement

Property furniture and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The land is measured at its cost. The assets acquired in business combinations are recognized under fair value method (See note 7).

Cost includes expenditure that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, and other costs directly attributable to bringing the asset to useable conditions such as financing costs of qualifying assets. Acquired computer programs that are integral to the functionality of the related fixed assets are capitalized as part of that equipment.

Gains and losses on the sale of an item of property, furniture and equipment are determined by comparing the proceeds from the sale against the carrying value of property, furniture and equipment and are recognized within “other operating income and expenses” in profit or loss.

The operating equipment relates mainly to crockery, glassware, cloth fabrics and cutlery whose expenditure took place at the beginning of the hotel’s operation. The costs to replace them are directly charged to the results of the year in which they occur. The operating equipment is not subject to depreciation, as it represents approximately the permanent investment in this regard.

A component of property, furniture and equipment, and any significant part of it initially recognized, is derecognized at the time of disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on the sale of an item of property, furniture and equipment are determined by comparing the proceeds from the sale against the carrying value of property, furniture and equipment, and are recognized within “other operating income and expenses” in the consolidated statement of income.

(ii) Subsequent costs

The replacement cost of an item of property, furniture and equipment (except for the replacement of the operating equipment) is recognized in the carrying value when it is probable that future economic benefits of such item flows to the Group and its cost can be reliably determined. The net book value of the replaced part is derecognized. The costs of day to day operation of property, furniture and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated on the amount subject to depreciation, which is the cost of an asset, or other amount to replace at cost, less its residual value.

When parts of the property, furniture and equipment have different useful lives, they are recorded and depreciated as a separate component of the property, furniture and equipment.

Depreciation is recognized in profit or loss using the straight-line method in accordance with the estimated useful lives of each component of an item of property, furniture and equipment, as this better reflects the expected pattern of consumption of future economic benefits included in the asset. Land is not depreciated.

The estimated remaining average useful lives of significant items of property, furniture and equipment are as follows:

	Useful Lives
General construction	62 to 66 years
Building hallway	52 to 56 years
Services construction	42 to 46 years
Complementary facilities	43 to 52 years
Elevators	12 to 16 years
Air conditioner	2 to 6 years
Furniture	2 to 6 years
Transportation equipment	1 to 3 years
Computer equipment	1 to 2 years

The depreciation method, useful lives and residual values are reviewed at each year and adjusted, if necessary.

(h) Goodwill

Goodwill represents future economic benefits arising from other acquired assets that are not individually identifiable or separately recognized. Goodwill is subject to impairment testing at the end of the reporting period and when there is an indication of impairment.

(i) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor or restructuring of an amount due to the Group.

The Group considers evidence of impairment for receivable measured at amortized cost at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables and investment securities with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of losses incurred, adjusted by management's analysis as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against accounts receivable. Interest on the impaired asset continues to be recognized. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If indicators of impairment are identified, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For impairment testing, assets that cannot be tested individually are integrated into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows from other assets or group of assets. Goodwill acquired during a business combination is allocated to cash-generating unit that are expected to benefit from the synergies of the business combination.

An impairment loss is recognized if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in relation to cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets on a pro rata basis.

The Group reassesses at the end of each period, if an impairment loss recognized in prior periods for assets other than goodwill should be reduced or reversed by the existence of specific indicators. In case that evidence is identified, reductions and reversals of impairment losses are recognized as income in the consolidated statement of income in the period they were identified, increasing the value of the asset by an equal amount.

(j) Other assets

They mainly include extraordinary fees with a defined useful life and are recorded at their acquisition value. Amortization is calculated using the straight-line method over a period of 10 years. Additionally, as of December 31, 2016, certain recoverable assets are included as described in note 15.

(k) Investment in associated companies

On June 12, 2013, GHSF entered into a contract with OMA Logística, S.A. de C.V., for the purpose of develop, build and operate a hotel under the brand name of "Hilton Garden Inn", located at the Monterrey Airport, through the incorporation of a new entity named Consorcio Hotelero Aeropuerto Monterrey, S.A.P.I. de C.V., in which GHSF has a 15% ownership of the capital of the company, without exercising control. This investment is recorded at cost.

(l) Employee benefits

(i) Short-term employee benefits

The Group's obligations for short-term employee benefits are valued on an undiscounted basis and charged to expense as the related services are provided.

A liability is recognized for the amount expected to be paid under short-term cash or profit sharing plans, if the Group has a present legal or constructive obligation to pay such amounts as a result of prior services rendered by the employee, and the obligation can be reliably estimated.

(ii) Defined benefit plan

The Group's obligations regarding seniority premiums that by law must be awarded under certain conditions are calculated by estimating the amount of future benefits earned by employees in exchange for their services in the current and past periods. That benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds to 10 years who have maturity dates approximating the maturity of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

(iii) Termination benefits

Termination benefits are recognized as an expense when it is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date or to provide termination benefits as a result of an offer that is made to encourage voluntary redundancy. Termination benefits for voluntary retirement are recognized as an expense only if the Group has made an offer of voluntary redundancy, it is probable that the offer is accepted, and the number of acceptances can be reliably estimated.

(m) Share-based payment

The Group has established a payment program based on shares of its equity for certain employees, recognizing an operating expense in the consolidated income statement and an increase in stockholders' equity, during the vesting period, at fair value of the equity instruments granted. The vesting period ranges from one to three years.

The plan grants shares to executives, net of taxes withheld, who meet the plan criteria and remain within the Group through the vesting period as disclosed in note 21(d).

(n) Accruals

An accruals is recorded if, as a result of a past event, the Group has a present legal or constructive obligation that can be reasonably estimated, and it is likely to require an outflow of economic benefits to settle the obligation.

(o) Revenue recognition

(i) Lodging services

Lodging service revenues, meals, beverages and other operating departments are recognized as rendered.

Advances from customers are payments received for future reservations, when lodging service have not been provided yet. Such advances are recognized as income at the time services are rendered.

(ii) Rental income

Rental income from investment properties is recognized in other income using the straight-line method over the term of the lease. The Group accounts investment properties using the cost method. The value of investment properties is estimated to be insignificant and therefore is presented under property, furniture and equipment in the consolidated statement of financial position.

(iii) Income from hotel management

Revenues from management and hotel operation services and any other services related to the hotel industry are recognized as income when they are rendered. These revenues are presented in the income from operations within others, in the consolidated statement of income.

(iv) Loyalty Program

The Company operates, through some of its hotels, a loyalty program named “Krystal Rewards” that allows its customers to accumulate points called “Krystales” and then exchange those for services. The equivalent amount of these points are deducted from the income from lodging services and recognized as a deferred liability. The fair value of the awards is determined based upon management’s estimates. The Krystales points expire within a 2 years period if not used.

The revenue associated with the loyalty program is recognized when customers redeem their points.

Costs associated with redemption are also recognized when customers redeem their points.

(p) Departmental costs

Departmental costs represent the cost directly related to lodging revenues, food and beverages and other operating income. Costs primarily include personnel costs (salaries, wages and other employees-related costs), consumption of inventories, food and beverages.

The cost of food and beverage inventory represents the replacement cost of such inventories at the time of sale, plus, if any, by reductions in the replacement cost or net realizable value of inventories during the year.

(q) Advertising expenses

Advertising costs are expensed as incurred.

(r) Leases

Lease payments

Payments made under operating leases are recognized in profit or loss based on the straight-line method over the term of the lease.

Determining whether an arrangement includes a lease

When subscribing a contract, the Group determines whether such contract is or contains a lease. A specific asset is the subject of a lease if the execution of the contract depends on the specific use of the asset and the contract has the right to use the related asset.

(s) Finance income and costs

Finance income consists of interest income on invested funds. Interest income is recognized as income as it accrues using the effective interest method.

Finance costs comprise interest expense on borrowings and bank commissions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the income statement using the effective interest method.

Foreign currency gains and losses are reported on a net basis in the income statement.

(t) Income taxes

The income tax includes current tax and deferred tax. Current tax and deferred tax are recognized in income, except when it relates to a business combination or items recognized directly in equity, as part of the other comprehensive income.

The income tax is the tax expected to be paid or received per each of the Group entities individually. Current income tax payable for the year is determined in conformity with legal and tax requirements for companies in Mexico, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recorded individually by each Group entity according to the asset and liability method, which compares the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes, thus recognizing deferred taxes (assets and liabilities) for the temporary differences between these values.

Deferred taxes are not recognized for the following temporary differences: the initial recognition of assets and liabilities in a transaction that is not a business combination and that does not affect neither the accounting or tax result, and differences relating to investments in subsidiaries to the extent that the Group has the ability to control the timing of the reversal and is unlikely to reverse in the foreseeable future. In addition, no deferred taxes are recognized for taxable temporary differences arising from the initial recognition of goodwill.

Deferred taxes are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Deferred tax assets are reviewed at the reporting date and are reduced to the extent that realization of the related tax benefit is no longer probable.

(u) Employee Statutory Profit Sharing (ESPS)

ESPS payable for the year is determined in accordance with current tax regulations. Under current tax legislation, companies are required to share 10% of its taxable income to its employees. It is presented under indirect expenses, within "Administrative", in the income statement.

(v) Contingencies

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, disclosure is provided in the notes to the combined financial statements. Contingent revenues, earnings or assets are not recognized until realization is assured.

(w) Segment information

Segment results that are reported by the Group's senior management (the operating decision makers) include items that are directly attributable to a segment, as well as those that can be allocated on a reasonable basis. For those expenses that cannot be directly assigned to the hotels (Urban and Resort), such as salaries, office rent, other administrative expenses, among others, are presented in the Operator segment.

(x) Earnings per share

The Group reports basic earnings per share (EPS) corresponding to its ordinary shares. Basic EPS is computed by dividing net income or loss available to common shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted by its own shares held.

4. Accounting standards not adopted

(a) New standards not yet adopted

A number of new standards and amendments to standards and interpretations are applicable for annual periods beginning after December 31, 2016, and have not been applied in the preparation of these consolidated financial statements. The Group does not plan to early adopt these standards.

- **Disclosure Initiative (Amendments to IAS 7)**
  The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

To satisfy the new disclosure requirements, GHSF intends to present a reconciliation between the beginning and closing balances for liabilities with changes arising from financing activities. GHSF is currently evaluating the impact that this standard will have on its consolidated financial statements.

- **Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)**

The amendments clarify the accounting treatment of deferred tax assets for unrealized losses on debt instruments measured at fair value.

Amendments are effective for annual periods beginning on or after January1, 2017, with early adoption permitted.

The Group is evaluating the possible impact of the application of these amendments on its consolidated financial statements. It is not expected that these amendments will have a significant impact.

- **IFRS 9 Financial Instruments (2014)**

IFRS 9 (2014) replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement. It includes revised guidelines for the classification and measurement of financial instruments, including a new expected credit loss model to calculate the impairment of financial assets, and the new general requirements for hedge accounting. It also maintains guidelines related to recognition and derecognition of financial instruments in IAS 39.

IFRS 9 (2014) is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Group is evaluating the possible impact on the consolidated financial statements, however it is not expected it will have a significant impact.

- **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 provides a comprehensive framework for determining whether how much and when revenue is recognized. It replaces current revenue recognition guidelines, including IAS 18 Revenue from Ordinary Activities, IAS 11 Construction Contracts, and IFRIC 13 Customer Loyalty Programs.

IFRS 15 is effective for annual periods, beginning on or after January 1, 2018, with early adoption permitted.

The Group is evaluating the possible impact of the application of IFRS 15 on its consolidated financial statements.

- •IFRS 16 Leases

  Issued on January 13, 2016, this Standard requires companies to account for all leases in their financial statements beginning on or after January 1, 2019. Companies with operating leases will have more assets but also a greater debt. The greater of the leasing portfolio within the entity, the greater the impact on reporting metrics.

  The Group is evaluating the possible impact of the application of IFRS 16 on its consolidated financial statements.

(b) New standard or amendments to standards adopted

- **Modification to IAS 16, Property, Plant and Equipment, and IAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization.**

  In May 2014 the IASB issued this amendment, which establishes a rebuttable presumption that the use of income-based amortization methods for intangible assets is inadequate. This assumption is only refuted when the income and consumption of the economic benefits of the intangible asset are highly correlated or when the intangible asset is expressed as a measure of income.

  Likewise, the modification prohibits the depreciation of Properties, Plants and Equipment on the basis of income. This is based on the fact that such methods reflect factors other than the consumption of the economic benefits embodied in the asset.

  The amendments will be effective as of or after January 1, 2016 and are applied prospectively. Early Adoption Allowed.

  Management believes that this new interpretation will have no impact on its consolidated financial statements.

5. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. The fair value of the accounts receivable from customers and other accounts receivable is estimated based upon their recoverability, after taking into consideration the collectability of certain accounts.

Derivative financial instruments are measured at fair value based upon methodologies and inputs employed in the financial environment.

6. Financial risk management

The Group is exposed to the following risks from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Currency risk
- Interest rate risk

This note presents information on the Group's exposure to each of the aforementioned risks, the objectives, policies and processes of the Group for risk measurement and management, as well as the Group's capital management. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework of the Group. Management is responsible for developing and monitoring compliance with established policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the Group's operating activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Board of Directors oversees how management monitors compliance with the Groups' risk management policies and procedures, and additionally reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises mainly from the Group's accounts receivable from customers.

Receivables from customers, related parties and other receivables

The Group's exposure to credit risk is affected mainly by the individual characteristics of each customer. The Group's services are provided to a large number of customers without significant concentration in any one of them.

The Group's management has implemented a credit policy under which each new customer is analyzed individually for creditworthiness before offering the standard terms and conditions of payment and delivery. The review carried out by the Group includes external ratings, when available, and in some cases bank references. For each client purchase limits are set, representing maximum open amount. Customers, who do not meet the Group's credit reference, can only perform operations through prepayment or cash.

The Group creates a provision for impairment losses that represents its best estimate of the losses incurred with respect to accounts receivable and other receivables. The main factors of this allowance are a specific loss component that relates to individually significant exposures.

Investments

The Group limits its exposure to credit risk by investing only in “money table” investments, which are highly liquid and low risk.

Guarantees

It is the Group’s policy to provide financial guarantees only to subsidiary companies owned at least 90%.

At December 31, 2016, there is a secured loan with BBVA Bancomer, S. A. Institución de Banca Multiple being guarantors subsidiaries: Servicios de Inmuebles Turisticos, S. de R. L. de C. V. and Chartwell Inmobiliaria Monterrey, S. de R. L. de C. V. (See note 16).

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation (see note 21).

Typically the Group ensures sufficient cash available to cover anticipated operating expenses for a period of 30 days, which includes the payment of its financial obligations; the above excludes the potential impact of extreme circumstances that are not reasonably foreseeable, such as natural disasters, for which the Group has taken out insurance coverage.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, prices and economic situation, factors that the population face may affect the Group’s income or the value of its financial instruments. The objective of market risk management is to manage and control exposures to market risks within acceptable parameters, while yields are optimized.

Currency risk

The Group is exposed to currency risk primarily by providing services and loans denominated in a currency other than the functional currency of the Group, which is the “Mexican peso”. The foreign currency in which these transactions are denominated is the U.S. dollar.

Interest on loans is denominated in the currency of the loan which is U.S. the dollar.

For other monetary assets and liabilities denominated in foreign currency, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currency exchange spot trading to cover unforeseen events in the short term.

Interest rate risk

Fluctuations in interest rates primarily impact loans, changing either their fair value or future cash flows. Management does not have a formal policy to determine how much of the Group’s exposure should be at a fixed or variable rate. However, at the time of obtaining new loans, management uses its judgment to decide whether it considers that a fixed or variable rate would be more favorable to the Group during the specified period until its maturity.

The Group's policy is to hedge the reference rate for its bank loans in accordance with market conditions. Currently the Group maintains a current position in interest rate options (Libor and TIIE), which provides a limit to the rates to be paid over the bank loans with variable interest rates.

Equity management

Management seeks to maintain an adequate equity base to meet the Group's operating and strategic needs and maintain the confidence of market participants. This is achieved through effective cash management, monitoring the income and profitability of the Group, and long-term investment plans that primarily finance the Group's cash flows. With these measures, the Group aims to achieve a constant growth of profits.

7. Business acquisitions

On May 7, 2015, Grupo Hotelero Santa Fe, S. A. B. de C. V., acquired a hotel located in the State of Mexico, in the municipality of Naucalpan, which operates 215 rooms under the trade name "Krystal Satelite María Barbara" for an amount of $205,265.

Assets acquired and liabilities assumed

Identifiable assets acquired and liabilities assumed in the business combination were as follows:

Moteles and Restorantes María Bárbara, S. A. de C. V. (Krystal Satélite María Bárbara).

	Fair values recognized at the time of acquisition
Current assets:	
Cash and cash equivalents	$ 1,097
Accounts receivable and other accounts receivable	3,314
Non-current assets:	
Property, furniture and equipment	258,000
Other non-current assets	71
Current liabilities:	
Trade accounts payable and other accounts payable	(7,433)
Non-current liabilities:	
Bank loans	(55,951)
Deferred taxes	(59,054)
Net Assets	140,044
Consideration paid in cash	(202,175)
Goodwill	**$ (62,131)**

As part of this acquisition, the Group maintains cash in a trust amounting to $11,570 and $14,660 as of December 31, 2016 and 2015, respectively, which will be released once certain conditions established in the agreement are met, in a period no longer than a year.

The identifiable assets acquired and liabilities assumed due to business combinations were recognized in the consolidated financial statements when transactions occurred.

8. Business segments information

This information is presented based on the principal business segments based on the management approach, distributed by Urban, Resorts and Operator and Holding. The following is a breakdown of the financial performance for the last two years:

	2016			
	Urban	Resort	Operator and Holding	Consolidated
Total operating revenues	$ 506,514	614,331	100,320	1,221,165
Depreciation and amortization	54,861	43,478	13,719	112,058
Operating profit (loss)	153,474	210,770	(74,331)	289,913
Consolidated net income (loss)	54,595	78,432	27,192	160,219

	2015			
	Urban	Resort	Operator and Holding	Consolidated
Total operating revenues	$ 363,502	532,477	64,140	960,119
Depreciation and amortization	39,290	37,478	10,902	87,670
Operating profit (loss)	97,249	169,795	(58,086)	208,958
Consolidated net income (loss)	(24,722)	15,142	19,606	10,026

The financial situation for the last two years is shown below:

	2016			
	Urban	Resort	Operator and Holding	Consolidated
Assets	$ 2,566,139	2,119,250	1,153,885	5,839,274
Liabilities	718,743	966,870	8,727	1,694,340

	2015			
	Urban	Resort	Operator and Holding	Consolidated
Assets	$ 1,957,383	1,313,827	238,694	3,509,904
Liabilities	581,583	740,748	47,223	1,369,554

9. Cash and cash equivalents

Cash and cash equivalents are comprised as follows:

	2016	2015
Cash	$ 1,016,193	52,008
Temporary investments	715,394	45,721
Total cash and cash equivalents in current assets	1,731,587	97,729
Long-term restricted cash (1)	67,486	56,792
Total cash and cash equivalents (2)	**$ 1,799,073**	**154,521**

(1) Restricted cash comprises of certain deposits to guarantee the payment of bank loans.

(2) The cash balance contains the cash flows that were obtained in the subsequent public offer (see note 20 (a)).

10. Accounts receivable

Accounts receivable are summarized as follows:

	2016	2015
Guests and agencies	$ 76,115	78,832
Others	9,931	2,655
	86,046	81,487
Less allowance for doubtful accounts	1,258	6,350
Total accounts receivable	**$ 84,788**	**75,137**

Note 21 discloses the Group's exposure to credit and currency risks and impairment losses related to accounts receivable from customers.

11. Transactions and balances with related parties

(a) Control relationships

At December 31, 2016, the equity of Grupo Hotelero Santa Fe, S.A. B. de C. V. is as follows:

- Casa de Bolsa Ve por Más, S. A. de C. V., Grupo Financiero Ve Por Más, División Fiduciaria as a trustee of F/154 (the "Control Trust"), 53.8833% of the capital.
- The remaining 46.1167% is held by the public investors.

The final control of Grupo Hotelero Santa Fe, S. A. B. de C. V. is held by the Control Trust.

(b) Remuneration to key management personnel

Management's key members received the following remuneration during each of the following years, which are included in personnel costs. (See note 22):

	2016	2015
Short-term benefits	**$ 28,996**	**26,573**

(c) Transactions with other related parties

The following describes the transactions with other related parties:

	Transaction value	
	2016	2015
(i) Revenue		
Management fee base:		
Hotelera Chicome, S. A. de C. V.	$ 10,843	8,799
WSC CKD Krystal Grand Reforma F/10057	9,314	3,427
Promotora Turística Mexicana, S. A. de C. V.	4,758	4,336
Hotelera Caracol, S. A. de C. V.	3,833	3,297
Consorcio Hotelero Aeroportuario Monterrey S. A. P. I. de C. V.	2,509	674
Bear, S. A. de C. V.	-	2,982
Incentive fees:		
WSC CKD Krystal Grand Reforma F/01057	$ 14,917	5,200
Hotelera Chicome, S. A. de C. V.	13,262	10,381
Promotora Turística Mexicana, S. A. de C. V.	6,233	4,336
Hotelera Caracol, S. A. de C. V.	3,660	3,029
Consorcio Hotelero Aeropuerto Monterrey, S. A. P. I. de C. V.	3,779	411
Bear, S. A. de C. V.	-	3,025
Corporate and international advertising revenues:		
Hotelera Chicome, S. A. de C. V.	$ 8,568	7,997
Promotora Turística Mexicana, S. A. de C. V.	2,633	695
WSC CKD Krystal Grand Reforma F/10057	2,102	37
Hotelera Caracol, S. A. de C. V.	1,875	62
Bear, S. A. de C. V.	-	660
Other income:		
Promotora Turística Mexicana, S. A. de C. V.	$ 1,054	267
Hotelera Chicome, S. A. de C. V.	1,001	320
WSC CKD Krystal Grand Reforma F/01057	997	214
Hotelera Caracol, S. A. de C. V.	569	248
Consorcio Hotelero Aeropuerto Monterrey, S. A. P. I. de C. V.	279	-
Servicios Corporativos Krystal Cancún, S. A. de C. V.	40	-
Servicios Corporativos Krystal Vallarta, S. A. de C. V.	40	-
Servicios Corporativos Krystal Ixtapa, S. A. de C. V.	40	-
Bear, S. A. de C. V.	-	112

	Transaction value	
	2016	2015
(ii) Expenses		
Refundable expenses:		
Promotora Turística Mexicana, S. A. de C. V.	$ 7,011	7,880
WSC CKD Krystal Grand Reforma F/01057	950	-
Bear, S. A. de C. V.	-	907
Expenses for administrative services:		
Grupo Circum, S. A. de C. V.	$ 7,385	6,363
Servicios Administrativos Chartwell, S. A. de C. V.	5,146	-
Leases:		
Inmobiliaria de la Parra, S. de R. L. de C. V.	$ 5,599	4,769
WSC CKD Krystal Grand Reforma F/01057	585	-
Purchase of fixed assets:		
Promotora Turística Mexicana, S. A. de C. V.	$ 223,777	-
Other recoverable expenses:		
Promotora Turística Mexicana, S. A. de C. V.	$ 2,335	64
Hotelera Chicome, S. A. de C. V.	92	72
Consorcio Hotelero Aeropuerto Monterrey, S. A. P. I. de C. V.	17	-
Hotelera Caracol, S. A. de C. V.	-	38

(iii) Transfer pricing policies

As for the pricing agreed, related party transactions, are comparable to those that would be used with or between independent parties in comparable transactions.

The due from and to related parties balances are as follows:

	2016	2015
Due from		
Impulsora de las Lomas, S. A.	$ 5,423	-
Hotelera Chicome, S. A. de C. V.	3,605	2,526
WSC CKD Krystal Grand Reforma F/01057	2,114	1,119
Hotelera Caracol, S. A. de C. V.	1,623	1,296
Consorcio Hotelero Aeroportuario Monterrey, S. de R. L. de C. V.	633	1,115
Promotora Turística Mexicana, S. A. de C. V.	371	934
Servicios Krystal Ixtapa, S. A. de C. V.	13	4
Servicios Corporativos Krystal Vallarta, S. A. de C. V.	4	4
Nexxus Capital Private Equity Fund III, L.P	2	2
Comercializadora MP, S. A. de C. V.	2	-
Deutsche Bank México, S. A.	-	2
Due from related parties	**$ 13,790**	**7,002**

	2016	2015
Due to		
Bear, S. A. de C. V.	$ -	33
Servicios Corporativos Krystal Cancún, S. A. de C. V.	-	21
WSC CKD Krystal Grand Reforma F/01057	-	2
Total due to related parties	**$ -**	**56**

Note 21 discloses the Group's exposure to credit and liquidity risks related to due from balances with related parties.

12. Other receivables

Other accounts receivable is summarized as follows:

	2016	2015
Recoverable value added tax	$ 131,727	95,809
Recoverable income taxes	20,952	16,575
Sundry debtors	1,570	5,504
Recoverable cash-deposits tax	413	413
Recoverable flat rate business tax	231	292
Others	3,882	202
	$ 158,775	**118,795**

Note 21 discloses the Group's exposure to credit risk related to other accounts receivable.

13. Inventories

Inventories are comprised as follows:

	2016	2015
Food	$ 3,349	2,493
Other operating supplies	3,976	2,882
Beverages	1,254	1,379
	$ 8,579	**6,754**

14. Property, furniture and equipment

The rollforward of property, furniture and equipment is shown below:

	Land	Operating equipment	Buildings	Furniture & equipment	Construction in progress	Total
Investment:						
Balance at December 31, 2014	$ 359,694	29,471	1,994,558	181,931	35,004	2,600,658
Additions	-	4,436	39,803	84,244	154,614	283,097
María Bárbara acquisition	123,348	-	219,388	69,580	-	412,316
Disposals	-	-	(3,687)	(1,285)	-	(4,972)
Balance at December 31, 2015	**$ 483,042**	**33,907**	**2,250,062**	**334,470**	**189,618(1)**	**3,291,099**
Investment:						
Balance at December 31, 2015	$ 483,042	33,907	2,250,062	334,470	189,618	3,291,099
Additions	130,022	5,884	71,218	94,654	427,859	729,636
Disposals	-	-	-	(3,682)	-	(3,682)
Transfers	(12,648)	138	203,816	17,037	(208,343)	-
Balance at December 31, 2016	**$ 600,416**	**39,929**	**2,525,096**	**442,479**	**409,134(2)**	**4,017,053**
Accumulated depreciation:						
Balance at December 31, 2014	$ -	-	163,473	63,309	-	226,782
Depreciation	-	-	56,085	27,048	-	83,133
María Bárbara acquisition	-	-	98,059	56,254	-	154,313
Disposals	-	-	(3,688)	(137)	-	(3,825)
Balance at December 31, 2015	**$ -**	**-**	**313,929**	**146,474**	**-**	**460,403**
Accumulated depreciation:						
Balance at December 31, 2015	$ -	-	313,929	146,474	-	460,403
Depreciation	-	-	59,945	47,006	-	106,951
Disposals	-	-	-	(3,232)	-	(3,232)
Balance at December 31, 2016	**$ -**	**-**	**373,874**	**190,248**	**-**	**564,122**
Carrying values:						
Balance at December 31, 2015	**$ 483,042**	**33,907**	**1,936,133**	**187,996**	**189,618**	**2,830,696**
Balance at December 31, 2016	**$ 600,416**	**39,929**	**2,151,222**	**252,230**	**409,134**	**3,452,931**

At December 31, 2016 and 2015, the estimated cost to complete construction in process projects amounts $1,515,761 and $21,405, respectively.

(1) The constructions in process correspond to the remodeling of Krystal Satélite María Bárbara, Krystal Urban Cancún and the project Krystal Urban Guadalajara.
(2) The constructions in process correspond to remodeling on Krystal Urban Cancún, Hilton Vallarta, Krystal Grand Punta Cancun, Krystal Grand Insurgentes (IH Insurgentes) y Krystal Residences and Suites (IKS).

At December 31, 2016 and 2015, there are no impairment losses on the value of long-lived assets, evaluated in accordance with the provisions of IAS 36 “Impairment of long-lived Assets”.

15. Other assets

The other assets are integrated as follows:

	2016	2015
Extraordinary fees (1)	$ 40,792	36,299
Advances for recoverable projects (2)	-	18,190
Others	2,552	2,567
	$ 43,344	**57,056**

(1) On March 17, 2016, Hotelera SF entered into an operation and hotel management agreement with Inca Inmobiliaria Monterrey S. A. de C. V., owner of the hotel "Krystal Urban Monterrey" in which it is stated the payment of an extraordinary fee (key money) amounting to $6,000, in consideration for being chosen by the hotel owner to operate for an initial term of 10 years, which will be the amortization period. At December 31, 2016, amortization was $300.

On January 24, 2016, Hotelera SF S. de RL de CV signed an operation and hotel management agreement with a third party to operate a 168-room hotel in the city of Monterrey, under the franchise of a well-known international brand. The hotel is under construction and is expected to start operations during the second quarter of 2019.

On December 22, 2015, Hotelera SF, entered into a management and hotel operation agreement with Servicios Hoteleros Metropolitanos S. A. de C. V. (owner of the hotel "Krystal Urban Aeropuerto Ciudad de México"), which stipulated the payment of an extraordinary fee amounting to $3,600 in consideration for being chosen by the owner of the hotel to operate it for a term of 10 years which will be the amortization period. At December 31, 2016, amortization was $270.

On December 20, 2013 Hotelera SF, entered into a management and hotel operation agreement with Bear, S. A. de C. V., (owner of the hotel "Krystal Grand Reforma") in which it was stipulated the payment of a an extraordinary fee (key money) amounting to USD 3,500,000, in consideration for being chosen by the hotel owner to operate it for an initial term of 10 years, which will be the amortization period. At December 31, 2016 and 2015, amortization expense was $4,537 for each year.

(2) This was related to advances made for a hotel project.

16. Short and long-term debt

The Group's debt is summarized as follows:

	2016	2015
Unsecured loan originated by BBVA Bancomer, S. A. up to USD 29,000,000 to Inmobiliaria en Hotelería Guadalajara Santa Fe, S. de R. L de C. V. and Inmobiliaria en Hotelería Monterrey Santa Fe, S. de R. L. de C. V., which bear interest at 90-day LIBOR rate, plus 3.10 percentage points, payable in 40 quarterly installments, beginning June 29, 2011, maturing in 10 years. The last payment of USD 8,700,000 corresponds to 30% of the total debt.	$ 395,825	367,796
Unsecured loan originated by BBVA Bancomer, S. A. to Inmobiliaria en Hotelería Vallarta Santa Fe, S. de R. L. de C. V. up to USD 22,000,000, which bear interest at the 90-day LIBOR rate, plus 3.10 percentage points, payable in 40 quarterly installments, beginning on October 31, 2014 maturing in 10 years. The last payment of USD 6,600,000 corresponds to 30% of the total debt.	394,166	354,122

	2016	2015
Unsecured loan originated by BBVA Bancomer, S. A. to Grupo Hotelero SF de México, S. de R. L. de C. V. for $120,000, which bear interest that results from adding 2.95% (two point ninety-five percentage points) to the defined TIIE rate in the contract and in the absence of this, by reason of an annual interest rate that results from adding 2.95% (two point ninety-five percentage points) to the CETES rate, payable in 40 quarterly installments beginning on February 29, 2016, maturing in 10 years. The last payment of $36,000 pesos corresponds to 30% of the total debt.	111,385	120,000
Unsecured loan originated by BBVA Bancomer, S. A. to Inmobiliaria in Hotelería Cancún, S. de R. L. de C. V. for USD 18,300,000, which bear interest at the 90-day LIBOR rate, plus 3.10 percentage points, payable in 39 quarterly installments, beginning June 28, 2014, maturing in 10 years. The last payment of USD 5,490,000 corresponds to 30% of the total debt.	310,278	277,450
Unsecured loan originated by Banco Ve por Más, S. A. to Inmobiliaria Hotelera Cancún Urban, S. de R. L. de C. V. for $100,000 which bear interest at the ordinary rate that results from adding 3.2 percentage points to the TIIE, paying in 25 quarterly installments beginning on May 19, 2017 maturing in 6 years.	100,000	-
Unsecured loan originated by Banco Santander Mexico to SF Partners II, S. de R. L. de C. V. for $85,000 which bear interest at the ordinary rate resulting from adding 2.95 percentage points to the rate (TIIE) payable in 79 monthly payments beginning December 16, 2016, maturing in 7 years. The last payment of $25,500 corresponds to 30% of the total debt.	84,237	-
Credit granted by the Electric Energy Savings Trust to Grupo Hotelero SF de México S. de RL for the purchase of CHILLER for $5,356 which bear interest at a fixed rate of 8.06% payable to 36 monthly installments beginning on September 18, 2016.	4,672	-
Accrued interest payable	11,091	3,945
Less issuance costs	9,031	8,303
Total debt	**1,402,623**	**1,115,010**
Less current installments	138,031	91,726
Long-term debt, excluding current maturities	**$ 1,264,592**	**1,023,284**

Interest expense on loans for the years ended December 31, 2016 and 2015 was $54,036 and $36,187, respectively.

At December 31, 2016 and 2015, the distribution among the entities in relation with the unsecured loan granted by BBVA Bancomer, S. A. up to USD 29,000,000 (which are guaranteed by Servicios e Inmuebles Turísticos, S. de R. L. de C. V. and Chartwell Inmobiliaria de Monterrey, S. de R. L. de C. V.), is shown below:

	US Dollars
Inmobiliaria en Hotelería Guadalajara Santa Fe, S. de R. L de C. V.	26,300,000
Inmobiliaria en Hotelería Monterrey Santa Fe, S. de R. L. de C. V.	2,700,000
	29,000,000

The bank loans establishes certain restrictive covenants, the most significant of which are:

- Provide audited financial statements within 210 calendar days after the fiscal year end.
- Provide within sixty calendar days after the end of each semester, internal unaudited financial statements.
- Inform within the next ten business days of any event that could affect or impair the current financial situation of the business or incur in any of the causes of anticipated termination under in the contract, informing the actions and measures that will be taken on the matter.
- Comply with certain financial ratios.
- Do not transmit or transfer neither the shareholding (whether from merger, acquisition, spinoff or transfer) nor the property, with certain exceptions.
- Not incurring interest- bearing liabilities, whose amounts may affect the payment obligations established in the contract.
- Do not grant loans or guarantees to third parties that may affect the payment obligations established in the contract.

At December 31, 2016, the Company complied with the restrictive covenants.

Note 21 discloses the Group's exposure to liquidity and currency risks related to short and long-term debt.

17. Trade accounts payables, other liabilities and accrued liabilities

Accumulated suppliers and liabilities are integrated as shown below:

	2016	2015
Proveedores	$ 71,765	50,584
Pasivos acumulados	53,663	64,770
Provisiones	61,652	28,216
	$ 187,080	**143,570**

Note 21 discloses the Group's exposure to liquidity risk related to suppliers and accumulated liabilities.

18. Employee benefits

The cost of the obligations and other elements of the seniority premium plans were determined based upon calculations prepared by independent actuaries at December 31, 2016 and 2015.

Below is the amount of the benefit obligation of the plans at December 31, 2016 and 2015 and the present value of benefits obligations of the plans at those dates.

	2016	2015
Seniority premium	**$ 3,867**	**3,306**

(a) Movements in the present value of defined benefit obligations (DBO)-

	Seniority premium	
	2016	2015
DBO at January 1,	$ 3,306	2,452
Benefits paid by the plan	(185)	(10)
Current service cost	350	270
Finance cost	202	319
Actuarial gains	194	275
DBO at December 31	**$ 3,867**	**3,306**

(b) Recognized expense in profit or loss

	Prima de antigüedad	
	2016	2015
Current service cost	$ 350	270
Finance cost	202	319
Actuarial gains	194	275
	$ 746	**864**

The net cost of the period was recognized in 2016 and 2015 in indirect administrative expenses in the consolidated statements of income.

(c) Actuarial assumptions

The main actuarial assumptions at the reporting date (expressed as weighted averages) are as follows:

	2016	2015
Discount rate	6.75%	6.75%
Future salary increases	4.64%	4.64%

19. Income taxes (IT)

The IT Law effective since January 2014, imposes an IT rate of 30% beginning 2014 and thereafter.

(a) Reconciliation of effective tax rate

Income tax attributable to income before income taxes differed from the amounts resulting by applying the Mexican statutory rates of 30% of IT to profit before income taxes, as a result of the items which are shown below:

	IT	
	2016	2015
Computed "expected" tax expense	$ 59,244	5,532
Increase (reduction) resulting from:		
Fiscal effects of inflation, net	(27,899)	(8,701)
Non-deductible expenses	3,751	3,696
Recognition of previously unrecognized deferred assets	2,166	(2,249)
Others, net	-	(1,821)
Income tax expense	**$ 37,262**	**8,415**

(b) Deferred tax assets and liabilities recognized-

Deferred tax assets and liabilities are presented below:

	IT	
	2016	2015
Deferred tax assets:		
Tax loss carryforwards	$ 117,750	114,163
Accruals	18,495	8,465
Advances from customers	6,562	6,026
Allowance for doubtful accounts	378	1,905
Deductible employee statutory profit sharing (ESPS)	220	285
Employee benefits	1,160	992
Total deferred tax assets	144,565	131,836
Deferred tax liabilities:		
Property, furniture and equipment	86,228	104,331
Prepaid expenses	7,313	2,206
Other assets	13,003	16,347
Total deferred tax liabilities	106,544	122,884
Deferred tax asset, net	**$ 38,021**	**8,952**

	IT 2016	2015
Deferred tax assets in the consolidated statements of financial position	112,438	95,247
Deferred tax liabilities in the consolidated statements of financial position	74,417	86,295
Deferred tax asset, net	**$ 38,021**	**8,952**

Deferred income tax assets and liabilities have been presented in the consolidated statement of financial position, based upon the grouping of each legal entity included in the consolidation, because taxes cannot be netted or offset between the different entities, due to the fact that there is no legal mechanism that allows it.

(c) Activity in temporary differences

	January 1, 2016	Recognized in results	December 31, 2016
Property, furniture and equipment	$ (104,331)	18,103	(86,228)
Tax loss carryforwards	114,163	3,587	117,750
Accruals	8,465	10,030	18,495
Advances from costumers	6,026	536	6,562
Allowance for doubtful accounts	1,905	(1,527)	378
Employee benefits	992	168	1,160
Deductible ESPS	285	(65)	220
Prepaid expenses	(2,206)	(5,107)	(7,313)
Other assets	(16,347)	3,344	(13,003)
	$ 8,952	**29,069**	**38,021**

	January 1, 1, 2015	Recognized in results	Acquired in business combination	December 31, 2015
Property, furniture and equipment	$ (31,145)	(14,132)	(59,054)	(104,331)
Tax loss carryforwards	84,796	29,367	-	114,163
Accruals	4,978	3,487	-	8,465
Advances from costumers	4,406	1,620	-	6,026
Allowance for doubtful accounts	2,121	(216)	-	1,905
Employee benefits	736	256	-	992
Deductible ESPS	143	142	-	285
Prepaid expenses	(3,861)	1,655	-	(2,206)
Other assets	(12,251)	(4,096)	-	(16,347)
	$ 49,923	**18,083**	**(59,054)**	**8,952**

The deferred tax assets not yet recognized in the consolidated financial statements of the Group are shown below:

	2016	2015
Tax loss carryforwards	**$ 227,283**	**220,063**

At December 31, 2016, tax loss carryforwards expire as follows:

Year	Tax loss carryforwards
2020	$ 3,342
2021	53,717
2022	13,118
2023	125,633
2024	137,702
2025	165,279
2026	120,990
	$ 619,781

20. Stockholders' equity and reserves

The main features of the accounts included the Company's stockholders' equity are described below:

(a) Initial public offering

At the Ordinary and Extraordinary Shareholders' Meeting held on September 3, 2014, it was agreed to change the legal regime of the Company to a Stock Exchange Company of Variable Capital. In addition it was approved to go public through a mixed public offering of shares in Mexico of up to 75,000,000 shares ($750,000 ($681,809 net of offering expenses)), which took place on September 11, 2014.

After the public offer, the capital stock was comprise of 275,500,000 common shares, registered, with no nominal value, Series "II", 207,500,000 corresponding to the founders and 68,000,000 to the public.

Subsequent public offering

At the Extraordinary Shareholders' Meeting held on June 15, 2016, it was agreed to make a public offering of shares in Mexico and Chile for up to 215,625,000 shares, of which 215,584,530 were issued ($1,832,469 ($1,787,961, net of offering expenses and taxes)), which took place on June 17, 2016.

After the subsequent offering, the capital stock is comprised of 491,084,530 ordinary shares, with no par value, 264,612,635 corresponding to the founders and 226,471,895 to the public investors.

(b) Mergers of companies

On August 20, 2014, at the Ordinary General Shareholders' Meeting it was approved the merger between Grupo Hotelero Santa Fe, S. A. B. de C. V., as the merging company with Walton México CW Direct, S. de R. L. de C. V., Group Chartwell Dos, S. de R.L. de C.V., Walton CV Direct, S. de R. L. de C. V., Inmobiliaria PRAL 724, S. A. de C. V. and Grand Resort International, S. de R. L. de C. V. After the suspensive condition was fulfilled the merger was completed on September 11, 2014.

(c) Repurchase of shares

At the Ordinary and Extraordinary General Shareholders' Meeting held on September 3, 2014, it was agreed to set up the Company's shares repurchase program up to a maximum amount equivalent to the total balance of the Company's retained earnings, including retained earnings from prior years. The Mexican National Banking and Securities Commission allows the companies to acquire in the market their own shares with a charge to retained earnings.

The total repurchased shares at December 31, 2016, is 3,807,163 shares, equivalent to 0.78% of the total shares of the Company's capital stock.

Of the repurchased shares, 3,053,761 are related to the fund for the share-based payment plan of the Company's executives, which was implemented in 2016 and 753,402 corresponding to the repurchase fund. The market value of the shares at December 31, 2016 is $9.30 per share. The repurchased shares available for sale have been recorded as a decrease of the capital stock.

(d) Share-based payment

The Group has a trust with the purpose of acquiring its own shares for the share-based payment to certain Group executives. The main features of the plan is a three-year term, the start date of the plan was the April 1, 2016 and will release 20%, 30% and 50% of the shares on the first, second and third anniversary respectively. To participate in the share-based payment plan, the executive must be at least one year in the Group, be recommended by the executive committee and remain in the Group on the date of each anniversary. This plan allows incorporations into their validity which must comply with the same conditions. The Group's board of directors authorizes and assigns plan shares at least once a year to certain executives who are eligible under the policies. The fair value for each share allocated in the share plan is equal to the average market price of the share at the date of allocation.

The shares of the trust for the share-based payment at December 31, 2016 is 3,053,761 shares whose market value at December 31, 2016 was $9.30 pesos per share. According to the plan, an expense amounting to $14,289 was recognized and net effect of taxes of $9,005 was credited to the stock repurchase reserve.

(e) Additional paid in capital

Represents the difference in excess between the subscribed shares and the nominal value derived from the capital contribution increase made on February 26, 2010 by Grupo Hotelero Santa Fe, S. A. B. de C. V.

(f) Restrictions on stockholders' equity

The net income for the year is subject to the separation of a 5%, to the legal reserve until it reaches one fifth of the capital stock. (See note 20 (g)).

Stockholder contributions restated as provided for by the tax law may be refunded to stockholders tax-free, to extend that such contributions equal or exceed stockholders' equity.

Retained earnings on which no income taxes have been paid, are subject to income taxes in the event of distribution, at the rate of 30%, payable by the Company; consequently, the stockholders may only receive 70% of such amounts.

(g) Legal reserve

At December 31, 2016 and 2015, the legal reserve amounts to $190,493.

(h) Basic earnings per share

Basic earnings per share is calculated by dividing net income for the year by the weighted average number of shares outstanding during the period. The weighted average number of shares at December 31, 2016 and 2015, is as shown below:

	Number of shares	
	2016	2015
January 1,	273,135,134	272,913,025
Shares repurchase	(1,442,297)	(2,542,019)
Shares sold	215,584,530	2,764,128
Final balance number of shares	487,277,367	273,135,134
Weighted average number of shares	388,441,557	271,736,565
Earnings per share	**0.41**	**0.037**

21. Financial instruments and risk management

(a) Credit risk or counterparty

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises principally from the Group's receivables from customers and investment securities. To mitigate this risk, the Group estimates the exposure of credit risk on financial instruments.

(b) Credit risk exposure

The carrying value of the financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

	Carrying amount	
	2016	2015
Accounts receivable	$ 84,788	75,137
Due from related parties	13,790	7,002
Other accounts receivable	158,775	118,795
	$ 257,353	**200,934**

The maximum exposure to credit risk for accounts receivable at the reporting date by geographic region is as follows:

	Carrying amount	
	2016	2015
Domestic	$ 59,713	55,601
Foreign	25,075	19,536
	$ 84,788	**75,137**

Below is the maximum exposure to credit risk for accounts receivable at the reporting date, by type of customer:

	Carrying amount	
	2016	2015
Business groups	$ 35,212	15,930
Wholesale	48,122	55,731
Retail	1,454	3,476
	$ 84,788	**75,137**

Derivative financial instruments

The fair value of financial assets represents the maximum risk exposure. Such exposure is shown below:

	Fair value	
	2016	2015
Effect in thousands of Mexican pesos		
Interest rate options (TIIE 91)		
BBVA Bancomer	$ 1,602	1,403
Interest rate options (LIBOR 3M)		
BBVA Bancomer	625	0.9
	$ 2,227	**1,404**

Impairment loss

The following is the classification of accounts receivable based on their age at December 31, 2016 and 2015:

	Gross 2016	Impairment 2016	Gross 2015	Impairment 2015
Current	$ 64,263	-	48,924	-
Past due from 0 to 30 days	10,919	-	7,977	-
Past due from 31 to 120 days	7,709	-	16,043	-
Past due over 120 days	3,155	(1,258)	8,543	(6,350)
	$ 86,046	**(1,258)**	**81,487**	**(6,350)**

The movement in the provision for impairment of accounts receivable from customers during the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
Balance at the beginning of the year	$ 6,350	7,072
Decrease and write-offs	(5,092)	(722)
Balance at end of year	**$ 1,258**	**6,350**

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty to meet its obligations related to financial liabilities. The Group seeks as far as possible, monitor these obligations, under both normal and stressed scenarios, without incurring unacceptable losses or risking damage to the Group's reputation.

The contractual maturities of financial liabilities at the end of the reporting period are shown as follows, including estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

2016	Carrying amount	Contractual cash flows	1 year	2 years	3 years	More than 3 years
Non-derivative financial liabilities						
Short and long-term debt	$ 1,402,623	1,736,485	203,518	226,199	202,952	1,103,816
Trade accounts payable	71,765	71,765	71,765	-	-	-
Accrued liabilities	53,663	53,663	53,663	-	-	-
	$ 1,528,051	**1,861,913**	**328,946**	**226,199**	**202,952**	**1,169,303**

2015	Carrying amount	Contractual cash flows	1 year	2 years	3 years	More than 3 years
Non-derivative financial liabilities						
Short and long-term debt	$ 1,115,010	1,317,933	134,776	127,044	141,360	914,753
Trade accounts payable	50,584	50,584	50,584	-	-	-
Accrued liabilities	64,770	64,770	64,770	-	-	-
Due to related parties	56	56	56	-	-	-
	$ 1,230,420	**1,433,343**	**250,186**	**127,044**	**141,360**	**914,753**

Market risk

Market risk is the risk that changes in market prices, such as interest rates, stock prices and foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments. In order to mitigate the market risks, the Group enters into derivative financial instruments, which, if not are formally designated for hedging, are accounted as for held-for-trading.

Exposure to currency risk

The Group's exposure to currency risk is shown below, based on USD amounts:

	Thousands of dollars	
	2016	2015
Accounts receivable	$ 1,206	800
Guaranteed bank loans	(53,245)	(57,807)
Trade accounts payable	(382)	(476)
Net exposure	**$ (52,421)**	**(57,483)**

The peso exchange rate in relation to the dollar at December 31, 2016 and 2015 was $20.66 and $17.34, respectively. At February 21, 2017, the exchange rate was $20.41.

Exposure to currency risk from derivative financial instruments

The Group is exposed to currency risk in its derivative financial instruments, since they are denominated in US dollars while the functional currency of the Group is the Mexican peso.

The Group does not have financial instruments to hedge currency fluctuations.

Exposure to currency risk

The following is a summary of the currency risk exposure arising from derivative financial instruments, originally agreed in US dollars:

	2016	2015
Effect in thousands USD		
Interest rate option (LIBOR 3M)		
BBVA Bancomer	**30**	**0.05**

The dollar exchange rates used during the year are shown below:

	2016	2015
Mexican peso	**$ 20.66**	**17.34**

Sensitivity analysis

December 31, 2016 and 2015 would have increased (decreased) the net income in the amounts shown. This analysis is based on the changes in the peso-dollar exchange rate that the Group considers will be reasonably possible at the end of the period covered by the report. The analysis assumes that all other variables, especially interest rates, remain constant.

2016	Gain	
USD (2.2% of strengthening)	**$ 838**	

2015	Gain	
USD (2.0% of strengthening)	**$ 3,519**	

A weakening of the Mexican peso against the US dollar as of December 31, 2016 and 2015 would have had the same effect, but opposite, in the above currencies, in the amounts shown, on the basis that the other variables remain constant.

As of December 31, 2016, the Group had no hedging instruments against currency risk.

Sensitivity analysis of foreign exchange rate on derivative financial instruments:

A strengthening or weakening of the US dollar at the end of the year could affect the valuation of the financial instruments denominated in this currency, causing an increase or decrease of profit or loss. This analysis is based on changes in the MXP / USD exchange rate under six different scenarios (+/- $1.50, $ + / - $1.00 and +/- $0.5). The analysis assumes that all other variables remain constant and the scenarios represent changes in these exchange rate fluctuations of derivative instruments:

	Increase			Decrease		
Effect in thousands of MXP	∆ $1.5	∆ $1.0	∆ $0.5	∇ $0.5	∇ $1.0	∇ $1.5
December 31, 2016						
Sensitivity to foreign exchange rate on options (LIBOR 3M)	45	30	15	(15)	(30)	(45)

	Increase			Decrease		
Effect in thousands of MXP	∆ $1.5	∆ $1.0	∆ $0.5	∇ $0.5	∇ $1.0	∇ $1.5
December 31, 2015						
Sensitivity to the foreign exchange rate on options (LIBOR 3M)	0.1	0.1	0.0	0.0	(0.1)	(0.1)

Interest rate risk

Fluctuations in interest rates impact primarily loans changing either their fair value or future cash flows. The administration does not have a formal policy to determine how much of the Group's exposure should be to fixed or variable rate. However, when borrowing new loans, management uses its judgment to decide whether to consider that a fixed or variable rate would be more favorable to the Group during the period specified, until maturity.

Profile

At the reporting date of approval of the consolidated financial statements, the interest rate profile of interest-bearing financial instruments is as follows:

	Carrying amount	
	2016	2015
Variable rate instruments		
Financial liabilities in USD	$ (1,096,245)	(994,679)
Financial liabilities in Mexican pesos	(295,224)	(117,790)
	$ (1,391,469)	**(1,112,469)**

Risk of interest on financial derivative instruments:

The Group is exposed to interest rate risk on derivative financial instruments, to possible fluctuations in the short and long-term interest rates.

Exposure to interest rate risk

The following is a summary of the exposure to interest rate risk on derivative financial instruments:

	Fair value	
	2016	2015
Effect in thousands of Mexican pesos		
Interest rate options (TIIE 91) BBVA Bancomer	$ 1,602	1,403
Interest rate options (LIBOR 3M) BBVA Bancomer	625	0.9
	$ 2,227	**1,404**

Sensitivity analysis of fair value for variable rate instruments

A fluctuation of 100 basis points (bp) in interest rates at December 31 2016 would have increased or decreased the results of the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

Results:

	Increase of 100 basis points	Decrease of 100 basis points
2016		
Variable rate debt	**23,077**	**(23,007)**
2015		
Variable rate debt	**17,012**	**(17,012)**

Sensitivity analysis of interest rate on derivative financial instruments

An increase or decrease in the interest rate, at year-end, could affect the valuation of financial instruments; and, therefore, impact the gains or losses of the year. This analysis is based on changes in the LIBOR interest rate could suffer under 6 different scenarios (+/- 5, +/- 10 and +/- 15 basis points). The analysis assumes that all other variables remain constant and represent the change that would suffer in the event of fluctuations in the scenarios mentioned:

	Increase			Decrease		
Effect in thousands of MXP	Δ150 bp	Δ100 bp	Δ50 bp	∇50 bp	∇100bp	∇150 bp
December 31, 2016						
Interest rate options (TIIE 91)	4,162	3,409	2,727	1,593	1,145	797
Interest rate sensitivity						

	Increase			Decrease		
Effect in thousands of MXP	Δ150 bp	Δ100 bp	Δ50 bp	∇ 50 bp	∇ 100bp	∇ 150 bp
December 31, 2015						
Interest rate options (TIIE 91)	680	355	125	(35)	(7)	50
Interest rate sensitivity						

	Increase			Decrease		
Effect in thousands of MXP	Δ150 bp	Δ100 bp	Δ50 bp	∇50 bp	∇100bp	∇150 bp
December 31, 2016						
Interest rate options (LIBOR)	450	311	184	(36)	(130)	(214)
Interest rate sensitivity						

	Increase			Decrease		
Effect in thousands of MXP	Δ150 bp	Δ100 bp	Δ50 bp	∇50 bp	∇100bp	∇150 bp
December 31, 2015						
Interest rate options (LIBOR)	2	1	0.4	(0.3)	(0.5)	(0.7)
Interest rate sensitivity						

Accounting classification and fair value of derivative financial instruments

Fair value and amortized cost

The fair value of the financial assets and liabilities, together with the amortized cost:

	Carrying amount	Fair value
Balance at December 31, 2016		
Interest rate options (TIIE 91)		
BBVA Bancomer	$ 1,602	1,602
Interest rate options (LIBOR 3M)		
BBVA Bancomer	625	625
Total derivative financial instruments	**$ 2,227**	**2,227**

	Carrying amount		Fair value
Balance at December 31, 2015			
Interest rate options (TIIE 91)			
BBVA Bancomer	$	1,403	1,403
Interest rate options (LIBOR 3M)			
BBVA Bancomer		1	1
Total derivative financial instruments	**$**	**1,404**	**1,404**

Interest rate used in determining fair value

The interest rates that were used to discount estimated cash flows, where applicable, are based on the yield curve plus an appropriate credit spread, and were as follows:

	2016	2015
Derivatives – LIBOR rate	0.71%-1.57%	0.43%-2.15%
Derivatives - TIIE rate	6.09%-7.16%	3.58%-9.32%

The above rates take into consideration discounts until maturity, being the maturity higher in 2019 (term 882 days as of December 31, 2016).

Fair value hierarchy

The Group determines the fair value using the following hierarchy that reflects the significance of the inputs used in making such measurements.

- Level 1: Quoted prices (unadjusted) in active markets for an identical instrument.

- Level 2: 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). This category includes instruments valued using: quoted market prices in active markets for similar instruments, quoted prices for similar instruments in markets that are considered less active, or other valuation techniques where all significant input are directly or indirectly observable from the market data.

- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes all instruments where the valuation technique includes factors that are not based on observable data and unobservable factors can have a significant effect on the valuation of the instrument. This category incudes instruments that are valued based on quoted prices for similar instruments that require adjustments or significant unobservable assumptions to reflect differences between the instruments.

The following table analyzes financial instruments at fair value at reporting dates, showing the level in the hierarchy that classifies the fair value measurement:

	Level 1	Level 2	Level 3
December 31, 2016			
Interest rate options (TIIE 91)	$ -	1,602	-
Interest rate options (LIBOR 3M)	-	625	-
Total derivative financial instruments	**$ -**	**2,227**	**-**
Bank loans in USD	$ -	1,147,889	-
Bank loans in Mexican pesos	-	311,529	-
Total bank loans	**$ -**	**1,459,418**	**-**

	Level 1	Level 2	Level 3
December 31, 2015			
Interest rate options (TIIE 91)	$ -	1,403	-
Interest rate options (LIBOR 3M)	-	1	-
Total derivative financial instruments	**$ -**	**1,404**	**-**
Bank loans in USD	$ -	1,121,677	-
Bank loans in MXP	-	139,126	-
Total bank loans	**$ -**	**1,260,803**	**-**

22. Personnel costs

The main items comprising the personnel costs are as follows:

	2016	2015
Salaries and other related costs	$ 226,036	136,047
Christmas bonus	10,670	8,793
Annual bonus	13,602	11,315
Compensations	5,153	3,633
	$ 255,461	**159,788**

23. Operating leases

(a) Leases as lessee

El Grupo renta las instalaciones que ocupan sus oficinas bajo el esquema de arrendamiento operativo. The Group leases the facilities that occupy its offices under the operating lease scheme. Normally, leases are for an initial period of 5 years, with the option to renew the lease after that date. Lease payments are generally increased annually to reflect market rental prices.

The future minimum lease payments subject to cancellation is as shown below:

	2016	2015
Less than one year	$ 8,115	6,801
Between one and five years	7,993	19,742
	$ 16,108	**26,543**

During the years ended December 31, 2016 and 2015, the amount of $6,762 and $6,398 was recognized, respectively, as an expense in results with respect to operating leases.

(b) Leases as lessor

The Group leases portions of its properties under the operating lease scheme. Future minimum lease revenue not subject to cancellation are as follows:

	2016	2015
Less than one year	$ 4,036	1,875
Between one and five years	8,917	9,988
More than 5 years	2,679	3,026
	$ 15,632	**14,889**

During the years ended December 31, 2016 and 2015, $7,757 and $7,759, respectively, were recognized as rental revenue in the consolidated statement of income.

24. Contingencies

Litigation

Some of the Group's subsidiaries are involved in various suits and claims arising from the normal course of their operations, which are expected to have no material adverse effect on its financial position and results of operations.

Tax contingencies

In accordance with Mexican tax law, the tax authorities are empowered to examine transactions carried out during the five years prior to the most recent income tax return filed.

In accordance with the Income Tax Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arm's-length transactions.

Should the tax authorities examine the transactions and reject the related-party prices, they could assess additional taxes plus the related inflation adjustment and interest, in addition to penalties of up to 100% of the omitted taxes.

25. Commitments

(a) On June 12, 2013, GHSF entered into a contract with OMA Logística, S.A. de C.V., for the purpose of develop, build and operate a hotel under the brand name of "Hilton Garden Inn", located at the Monterrey Airport. GHSF has a 15% ownership of the capital of the associated company.

(b) On June 17, 2013, Hotelera SF entered into a management and hotel operation agreement with the owner of a property in the state of Tabasco, which undertakes to carry out, from the date of commencement of operations, management and operation of the hotel, which will be marketed under the "Hampton Inn & Suites" brand and under the trade name "Hampton Inn & Suites Paraíso".

(c) On December 20, 2013, Hotelera SF entered into a management and hotel operation agreement with Bear, S. A. de C. V., (related company) which undertakes to carry out, from the same date, the management and operation of the hotel, which will be marketed under the "Krystal Grand" brand and under the trade name "Krystal Grand Reforma Uno".

(d) On December 22, 2015, Hotelera SF entered into a hotel management and hotel operation agreement with Servicios Hoteleros Metropolitanos, S. A. de C. V., which undertakes to carry out, from the same date, management and operation of the hotel, which will be marketed under the brand name "Krystal Urban" under the trade name "Krystal Urban Aeropuerto Ciudad de Mexico".

(e) On March 17, 2016, Hotelera SF entered into a management and hotel operation agreement with Operadora Inca S. A. de C. V. to operate a hotel in the city of Monterrey under the Krystal brand as of this date.

(f) As indicated in note 14 at December 31, 2016, the Group has certain commitments related to the construction and improvements of certain of its hotels.

26. Subsequent Events

(i) On January 10, 2017, Hotelera SF began operating a 124-room hotel in Pachuca Hidalgo which is marketed under the Krystal brand. The contract of operation was signed on December 15, 2016.

(ii) On October 14, 2016, GHSF entered into two letters of intent with Operadora de Comercios de Vallarta, S. A. de C. V., Inmobiliaria Constructora y Desarrolladora, S. A. de C. V., Propiedades La Jolla, S. de R. L. de C. V. and Gabriel Ruiz Huerta Properties (jointly the "Sitra Shareholders") and with ICD Sitra, S. A. de C. V. ("Sitra") for the subscription of shares, in which GHSF will subscribe a capital increase in the variable portion of Sitra's capital in the amount of $324,686 (15,461,113 USD), obtaining a 50% stake. In addition, entered an additional agreement with Commercial Hotelera Mexicana del Occidente, S. A. de C. V., Inmobiliaria Constructora y Desarrolladora, S. A. de C. V., Crowninvest, LLC., (jointly the "Sibra Shareholders") and with Sibra Vallarta, S. A. de C. V. ("Sibra"), for the subscription of shares, in which GHSF will subscribe a capital increase in the variable portion of Sibra's capital in the amount of $301,875 (14,375,000 dollars), obtaining a 50% stake. These transactions were performed on February 15, 2017.

27. Relevant financial information (unaudited) - Calculation of Adjusted EBITDA

The Adjusted EBITDA represents the result of recurring transactions before taxes, comprehensive finance cost, depreciation, amortization and non-recurring transactions with the purpose of presenting the consolidated results of Grupo Hotelero Santa Fe, S. A. B. de C.V.

	2016	2015
Operating income	$ 289,913	208,958
Depreciation and amortization	112,058	87,670
Hotel acquisition and opening expenses	18,536	13,166
Other non-recurring indirect expenses	5,613	9,019
Adjusted EBITDA	**$ 426,120**	**318,813**

This information is presented for additional analysis and does not represent information required under IFRS; therefore, it is not deemed essential for the proper interpretation and presentation of the consolidated financial position, the consolidated results of its operations or its consolidated cash flows.

EBITDA (Earnings before interest, taxes, depreciation and amortization).

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The information provided in this report contains certain forward-looking statements and information related to Grupo Hotelero Santa Fe, S.A.B. de C.V. and its subsidiaries (jointly "Grupo Hotelero Santa Fe", "HOTEL", or the "Company") which are based in the understanding of its managers, as well as in assumptions and information currently available for the Company. Such statements reflect the current view of Grupo Hotelero Santa Fe in regard to future events subject to a number of risks, uncertainties and assumptions. Several features may cause that the results, performance or current achievements of the Company may differ materially with respect to future results, performance or attainments of Grupo Hotelero Santa Fe that may be included, expressly or implied within such statements in regard to the future, including among others, alterations in the economic general conditions and/or politics, governmental and commercial changes globally or within the countries in which the Company has any business interests, changes in the interests rates and inflation, exchange rates volatility, changes in the demand and regulations of the products marketed by the Company, changes in the price of raw materials and other goods, changes in the business strategies and several other features. If one or more these of risks or uncertainties are materialized, or if the assumptions used result to be incorrect, the real results may materially differ from those described herein as anticipated, believed, expected or envisioned. Grupo Hotelero Santa Fe undertakes no obligation to update or revise any forward-looking statements.

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