

*the Alsea  
effect*

There's a place where Brands  
become market leaders,  
where strategic partners find their  
fullest potential to develop,  
where employees are part of a team  
with a shared passion and goals,  
where guests adopt our philosophy and  
make it part of their way of life,  
and where communities can develop  
with our support.

*it is no coincidence.*

It all has a single cause:

*the Alsea  
effect*

# A WAY OF WINNING

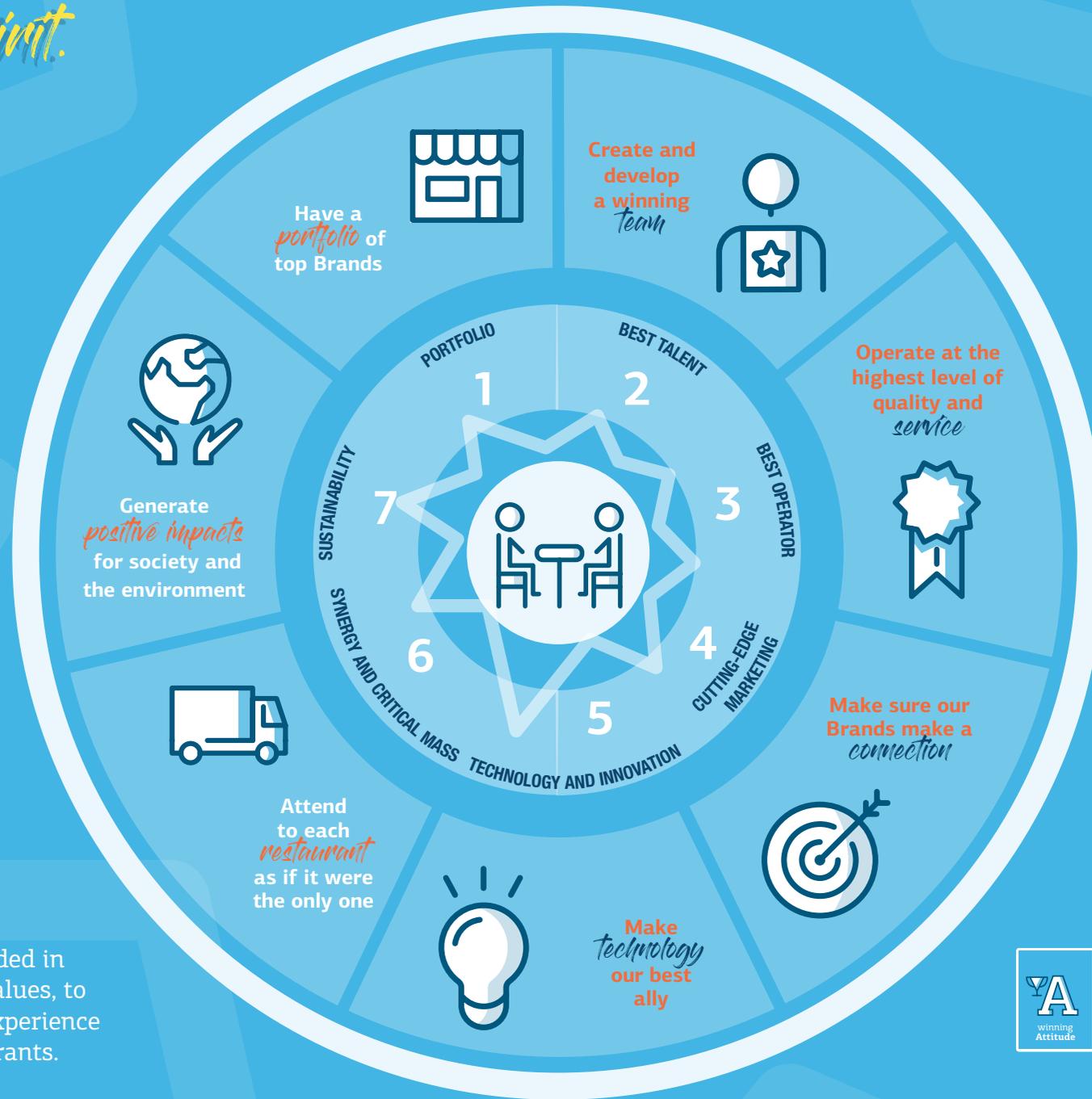
*seven  
strategic  
pillars*

We are a determined community, committed to excellence and integrity. We maximize synergies to deliver a surprising offer to our GUESTS and to make sure that our Restaurants generate extraordinary results, contributing the right dose of happiness, down to the smallest details, to fulfill our purpose:

*Igniting people's spirit.*

**Our growth model is the guiding force in our operation**

**We are prepared for the growth we expect in the future**



At Alsea, our culture is grounded in five guest-focused strategic values, to guarantee an extraordinary experience for every visitor to our restaurants.



**WINNING ATTITUDE**

Proving our passion for excellence while meeting increasingly ambitious goals.

**ENGAGED LEADERSHIP**

Passionate about restaurants and caring for the business as our own.

**SURPRISING SERVICE**

Constantly raising standards of satisfaction to serve and surprise.

**EMPHASIS OF COLLABORATION**

Joining ideas with talent in a community that multiplies results.

**ATTENTION TO DETAIL**

Continuously improving to enhance the Alsea Experience with impeccable execution.

# Message from the Chairman of the Board



*Dear friends:*

*2017 was a year of great challenges and satisfaction. We continued to consolidate our business model, with Brands positioned as leaders in the markets where we operate, expanding our reach and attaining increasingly strong profit margins, where technology is our ally in responding to our guests' preferences, and where our employees can develop and work with passion toward common goals.*

*We have succeeded in gearing all aspects of our operation toward creating great experiences for our guests, generating profits for our shareholders, and contributing to the development of communities where we operate.*

***This is "the Alsea effect."***

The past year started out under very difficult circumstances for Alsea, especially in Mexico. The US presidential election stirred up considerable exchange-rate volatility and generated a sense of irritation, even rejection, toward some of our global Brands like Starbucks. We took immediate action to counter these effects, and ultimately, despite sluggish growth in Mexico, our team made some remarkable achievements last year.

2017 was also a year of great achievements, in line with our strategy. Sustained by our focus on the guest experience, our committed team of employees, and our passion for quality and service, we continued to provide strong returns for our investors and reiterated our leadership as the best restaurant operator in Latin America and Spain.

In this 2017 annual report, we will be sharing our economic, social and environmental results with you and letting you know about everything we've done to continue evolving toward excellence.

During the year, we further strengthened our corporate governance, with the aim of being the increasingly institutional, growth-oriented company our environment demands. To this end we welcomed some key appointments during the year.

2017 was the first year for our new CEO, Renzo Casillo, who has fortified this company with some important changes. It was also the first year for our new Chief Administration and Finance Officer, Rafael Contreras. We are sure that his experience and vision are what Alsea needs to carry its strategic plan forward to meet the goals we have set for ourselves.

At the same time, we made some adjustments in our Board of Directors, which now has the valuable participation of Adriana Noreña, Vice President for Google Spanish Speaking Latin America, as independent board member with extensive experience in the technology sector. We are well aware that the future is increasingly digital, and we need to understand and orient information toward our commercial purposes in order to continue offering the best service and the most innovative proposition for our guests.

One reason this business is so successful is its more than 70,000 employees, responsible for “igniting our guests’ spirits,” and this is why the company strives so hard to ensure that every one of our restaurants has the best leaders in the industry, committed to caring for our people, our guests and our businesses. We have made an increasing effort to create a more attractive work experience that builds closer emotional ties with and between our associates, and we are continually investing in more equitable salaries, standardized talent management processes, and programs to reduce turnover.

In order to support this strategy and continue efficiently executing our growth plans in the company’s core industry, focus on restaurant operations in the different geographies where we are present, and continue to explore new opportunities in that industry, we made the strategic decision to sell our minority stake in Grupo Axo, where we received a very good return on the equity we invested in 2013.

In 2017, we started up a new Centro de Operaciones (COA) located in Mexico State, one of our biggest forward-looking investments. This is where we will bring together the supply for all our Brands in Mexico, and integrate our logistics services and production processes. With this, we can guarantee that every restaurant has the supplies it needs on time, and improve the efficiency of our costs, labor, production times and delivery routes.

Another big investment last year was the creation of a new support center in Mexico City, a new office space designed according to the “keep it simple” approach, which encourages collaboration and productivity and brings us closer to our people. This new space fulfills three purposes:

- 1 **Renovation**--new forms of work that will remind everyone that the center of the business is the restaurant and the guest;
- 2 **Evolution**--a space with cutting-edge technology and new services that benefit everyone; and
- 3 **Connection**--all areas of the support center operating under a single roof.

Among our most outstanding actions in the area of sustainability was the completion of our fifth year supporting the “Va por mi Cuenta” program, with an investment of more than 100 million pesos that today support the operation of 10 children’s food pantries in Mexico, serving more than 3,500 children at risk of malnutrition. Also for the fifth year in a row, we were once again included in the Mexican Stock Exchange’s Sustainable IPC Index, positioning ourselves as a company committed not only to our economic performance but to society and the environment as well. Furthermore, for the 6th year in a row, we received the “Socially Responsible Enterprise” distinction for our commitment to a better future for all, and we continued to adhere to the principles of the U.N. Global Compact and Sustainable Development Goals.

At Alsea, we cannot conceive of success without sharing it, and we are not alone on this road. We are a community driven by excellence and integrity, and we surround ourselves with the best in every sense of the word. I am grateful to our management for their determination, our employees for their commitment, and our shareholders for their confidence. Each one of you has played a part in our present success, and you will be essential pillars in building our future success.



**Alberto Torrado Martínez**  
Chairman of the Board of Directors

# Letter from the Chief Executive Officer



*At Alsea, our way of winning is a dynamic equation involving our Brands, our employees and a model of synergies and critical mass, combined with marketing and innovation strategies, all for the purpose of surprising our guests, surpassing their expectations and fulfilling our strategic plan, which will double Alsea's size by the year 2020.*

In 2017, net sales rose 12.8% to Ps. 42.53 billion pesos, compared to Ps. 37.70 billion the year before. The growth was due primarily to a 6.6% jump in same-store sales and the addition of 214 corporate-owned units that brought the total to 2,716 units as of the close of December 2017--an 8.6% increase over the close of 2016.

Also last year, a 14.2% rise in gross earnings and 11.4% increase in operating expenses (excluding depreciation and amortization) combined for a 25.4% rise in EBITDA to Ps. 6.47 billion as of the close of 2017, compared to Ps. 5.15 billion one year earlier. This Ps. 1.31 billion increase in EBITDA can be attributed specifically to the positive contribution of Ps. 609 million from the sale of all of our minority stake in Grupo Axo, S.A de C.V., which we had acquired in June 2013; along with same-store sales growth, operating efficiency, and the increased number of units.

At Alsea Mexico, 2017 was a year of great celebrations: besides the 15th anniversary of Starbucks in this country, we had the chance to celebrate the opening our new Centro de Operaciones Alsea (COA), the linchpin of our services in central Mexico, bringing together manufacturing, logistical and distribution operations and generating efficiencies that boost our profitability.

As part of our innovation strategy, we incorporated purchasing solutions that are more accessible and in tune with our guests' lifestyles. One of these is the Starbucks Rewards program for Mexico, which already has 1.3 million members, and the new Dominos Mx app, which accounted for 18% of the total brand sales last year. Finally, Wow Rewards, our multi-brand loyalty program in

Mexico, the flagship cutting-edge technology development project that recognized our guests for their preference, already has more than a million registered users, giving it a presence in 5.7% of Alsea's sales with a 37% increase in the average ticket.

At Alsea International, last year marked the third anniversary of our acquisition of Grupo Zena in Spain, during which time we have achieved a compound annual growth rate of 14% in and 21% in sales and EBITDA, respectively. Furthermore, in the second quarter of the year we signed a contract to develop the Starbucks brand in Uruguay and in August we opened the first Chili's unit in Chile, a format that has already gained widespread acceptance in the Andean market. With these achievements, we fulfilled our strategy of successfully bringing our Brands to other countries.

The third quarter of the year was an especially difficult one, and put to the test our resilience and response capacity when a number of strong earthquakes hit central Mexico. The events affected our financial performance, most concretely our sales, and we had to close some establishments temporarily while pitching in to help communities deal with the damage. To assist in this emergency, we equipped more than 900 restaurants as centers for the collection of food, basic supplies and personal hygiene items, and also offered support to 280 employees whose homes were damaged in the quakes, through an internal assistance plan organized by the Emergency Committee in all the countries that part of the Alsea Family.

In keeping with our sustainability pillars, we continued to work along our four guiding axes: support for the community, responsible consumption, quality of life, and environment.

Speaking of our commitment to the community, in 2017 we met our goal of operating 10 children's food pantries, part of the "Va por mi Cuenta" movement, opening one in the community of Santa Úrsula, Mexico City, and another in Oaxaca. With these we expanded our coverage, providing food to more than 3,500 children every day. Among our employees, we continue working one on one to offer better benefits, opportunities for growth, training and a workplace where their full development is guaranteed, along with their health and safety. Another sustainability achievement consistent with our commitment to responsible consumption was our creation of a food safety and quality policy and standard applicable to all the countries where Alsea operates. Committed to the environment, we began the purchase of 3.5 million Kilowatt/hours of wind energy, avoiding the emission of 1,620 metric tons of CO<sub>2</sub>, and collected 916,000 liters of cooking oil, avoiding the contamination of 916 million liters of water in 2017.

All of this signals a sea change in the way in which we conceive of our business, incorporating the cooperation and collaboration of everyone that makes up the Alsea Family to meet the multi-cultural demands of all of our guests.

We are taking great strides toward strengthening ties with each of you: our investors, employees, guests, suppliers and society, to whom we express our gratitude for your confidence and trust. We invite you to peruse this report for more details about who we are, and why Alsea is the leading restaurant industry company in Latin America and Spain.

**Renzo Casillo Nielsen**  
Chief Executive Officer

# Financial<sup>1</sup> Highlights

	5Y CAGR <sup>5</sup>	Annual growth	2017	%	2016	%
<b>Income Statement</b>						
Net Sales	28%	12.8%	42,529.1	100.0	37,701.9	100.0
Gross Profit	30%	14.2%	29,605.9	69.6	25,922.2	68.8
Operating Income	35%	34.2%	3,714.6	8.7	2,767.0	7.3
EBITDA <sup>2</sup>	33%	25.4%	6,466.3	15.2	5,155.2	13.7
Consolidated Net Income	17%	11.2%	1,252.1	2.9	1,126.5	3.0
<b>Balance Sheet</b>						
Total Assets		3.8%	39,659.3		38,198.5	
Cash		(39.5)%	1,540.4		2,547.8	
Cost-bearing liabilities		(0.5)%	14,761.4		14,839.9	
Majority Shareholders' Equity		3.8%	9,460.4		9,114.0	
<b>Profitability</b>						
ROIC <sup>3</sup>		15.6%	12.6%		10.9%	
ROE <sup>4</sup>		6.8%	12.5%		11.7%	
<b>Market Information</b>						
Stock Price		8.5%	64.37		59.33	
Earnings per share		10.1%	1.31		1.19	
Dividends per share		(11.7)%	0.68		0.77	
Book value per share		6.4%	11.36		10.68	
Shares outstanding <sup>6</sup>		(0.2)%	832.8		834.3	
<b>Operations</b>						
Number of Units		17%	7.6%	3,438		3,195
Employees		22%	7.6%	72,434		67,340

<sup>1</sup> Figures in millions of Mexican pesos (MXN) under IFRS standards, except per share data, number of units, and employees.

<sup>2</sup> EBITDA: earnings before interest, taxes, depreciation and amortization.

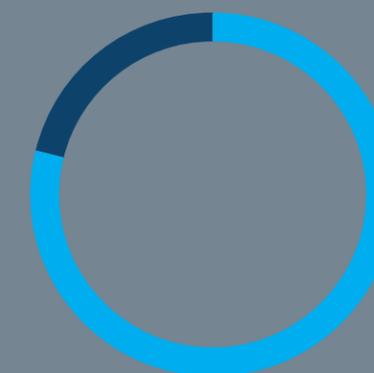
<sup>3</sup> ROIC: operating income after taxes over net operating investment. (total assets - cash and cash equivalents - no cost liabilities).

<sup>4</sup> ROE: net profit over mayor shareholders' equity.

<sup>5</sup> CAGR: Compound Annual Growth Rate between 2013 and 2017.

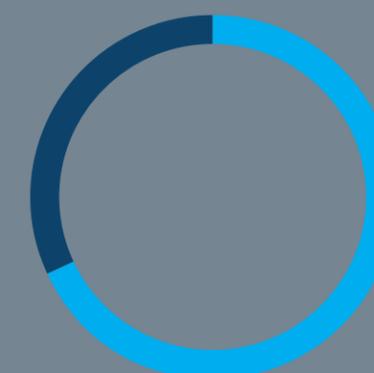
<sup>6</sup> Millions of shares

<sup>7</sup> SSS: Same-store sales



## UNITS

CORPORATE	2,716	21%	SUBFRANCHISES	722	79%
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## UNITS

MEXICO	2,346	32%	INTERNATIONAL	1,092	68%
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Year	SALES	EBITDA <sup>(2)</sup>	NET INCOME	ROE % <sup>(4)</sup>	SSS % <sup>(7)</sup>	UNITS
2013	15,698	2,040	663	14.5	8.0	1,862
2014	22,787	2,802	624	7.5	4.5	2,784
2015	32,288	4,302	1,033	10.4	9.3	2,954
2016	37,702	5,155	1,126	11.7	8.9	3,195
2017	42,529	6,466	1,252	12.5	6.6	3,438



*Growth*  
model

**REVENUES AND RESTAURANTS**

**PROFITABILITY**

**ORGANIC GROWTH**

- Opening current brand and model restaurants
- Remodeling
- Same-store sales
- New sales channels
- New dining opportunities
- New restaurant models
- Current revenue flow

**NON ORGANIC GROWTH**

- New countries
- New segments
- New Brands
- Exporting current Brands
- Alsea finance
- Finished product sales
- New revenue flows
- Non-restaurant sales channels

**OPERATIONS**

- Same-store sales
- Expense control
- COGS control
- Labor productivity
- Restaurant portfolio management
- Price strategy
- Menu strategy

**BUSINESS MIX**

- Brand portfolio management
- Country portfolio management
- Own store-franchise mix
- Currency mix

**SYNERGY AND CRITICAL MASS**

- Purchase and investment synergies
- Reduced APR
- Lower investment
- Overhead absorption
- New revenue sources
- Real estate

# LEA DING

*Brands*

**Our Portfolio includes  
all the top Brands.**

Our Brands have a widespread  
global presence and tremendous  
potential to keep growing.



BRAND  
PORTFOLIO



BEST  
TALENT



BEST  
OPERATOR



CUTTING-EDGE  
MARKETING



TECHNOLOGY  
AND INNOVATION



SYNERGY AND  
CRITICAL MASS



SUSTAINABILITY



*The Alsea effect*

# Leadership

3,438  
*restaurants*



Our brand portfolio contains the hottest and most profitable restaurant Brands, with global expansion potential. Alsea is the best strategic partner.

We have achieved steady economic growth and now have a presence in Mexico, Spain, Argentina, Chile, Colombia and Brazil.

**UNITS**  
**2,716**  
 corporate  
**722**  
 subfranchises

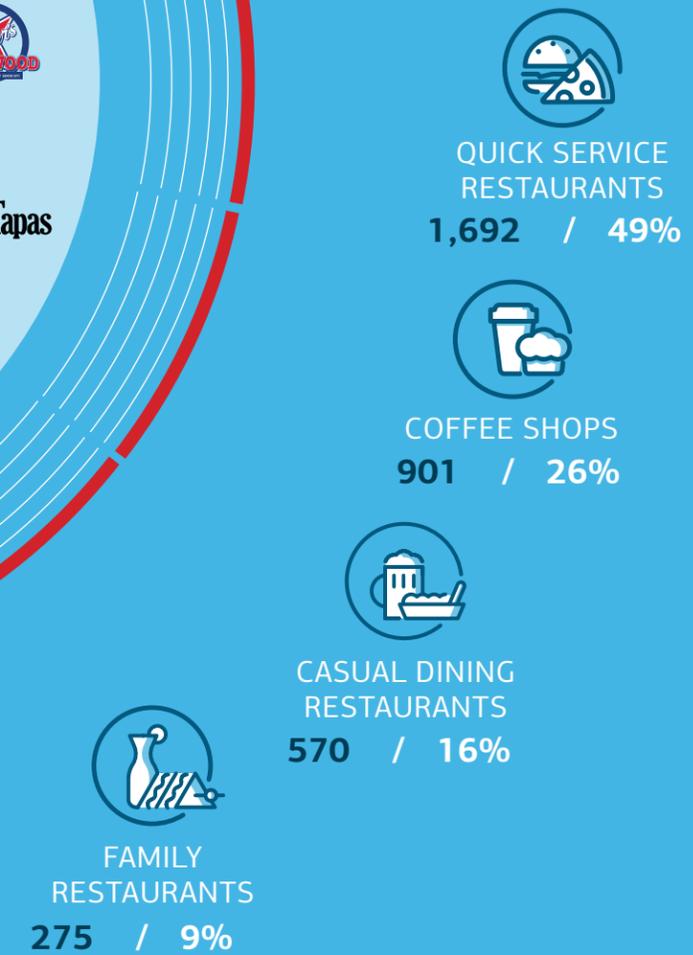
*6 countries*

*4 segments*

UNITS



UNITS / % OF SALES



# WINNING Team



BRAND  
PORTFOLIO



BEST  
TALENT



BEST  
OPERATOR



CUTTING-EDGE  
MARKETING



TECHNOLOGY  
AND INNOVATION



SYNERGY AND  
CRITICAL MASS



SUSTAINABILITY

**We recruit, develop and  
train the best talent.**

At Alsea, our team is  
committed and passionate  
about quality and service.





*The Alsea effect*

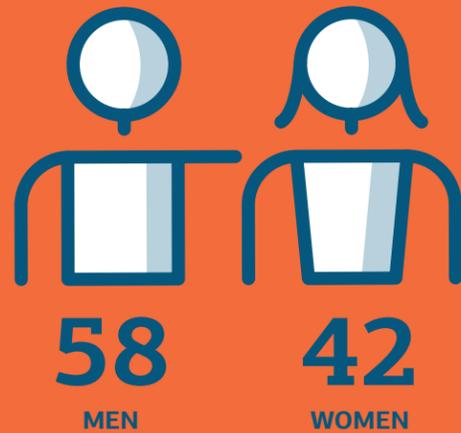
# Excellence

**72,434**  
*employees*

# The best talent

Alsea is convinced that our people are the heart of our business: it is our employees who captivate guests with their service and bring our Brands to life.

The Company has a strategy that aims at doubling its size every five years, so we need to make sure we have committed leaders who care for their people, their guests and their business, to generate sustainable, rapid and profitable growth.



## % by gender

### % by position

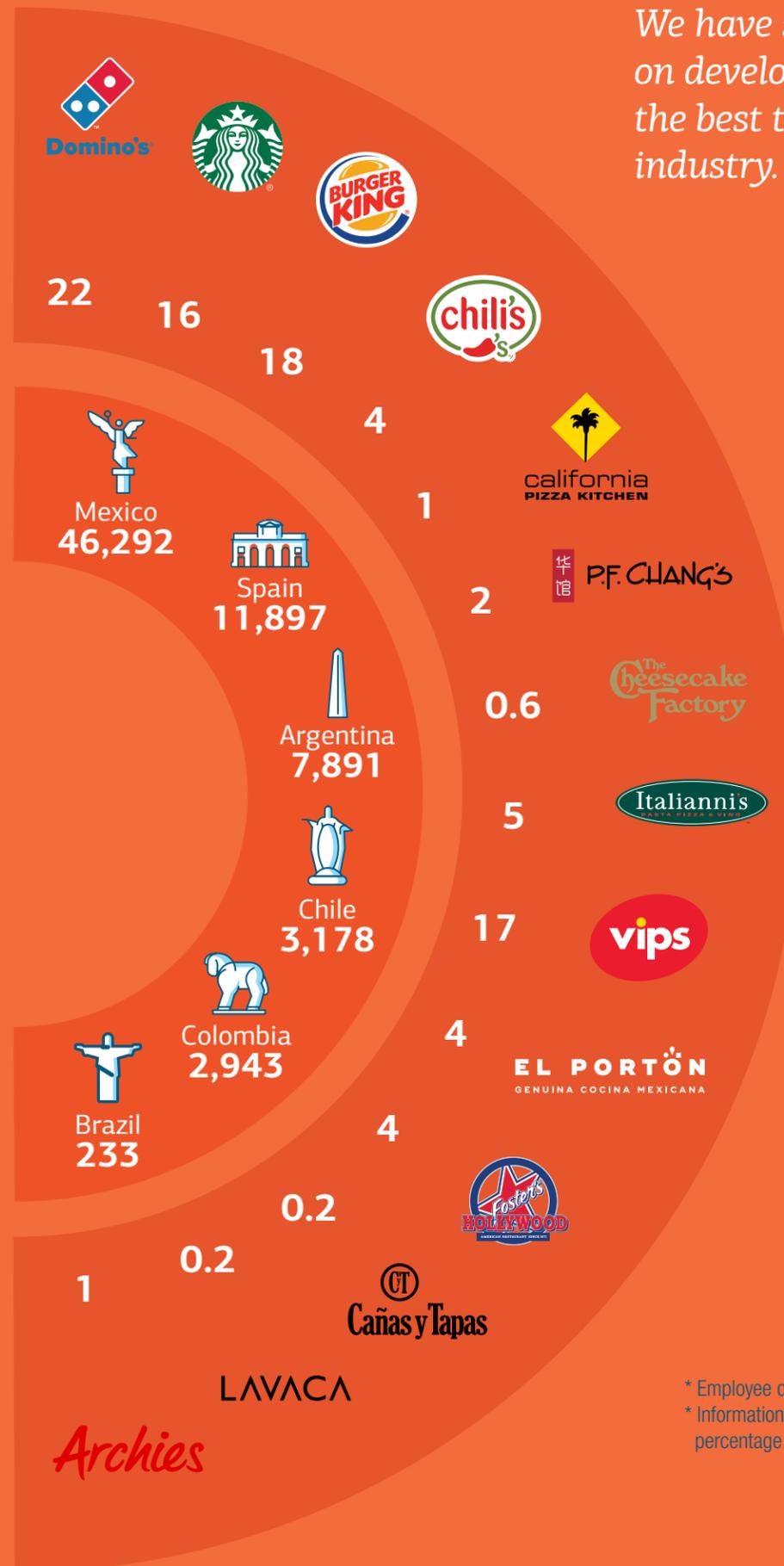
Position	Men (%)	Women (%)
Directors (Support and Operations Center)	91.16	8.84
Subdirectors	75	25
Managers and specialists	62.5	37.5
Coordinators	52.63	47.37
Analysts	47.61	52.39
Store managers	53.84	46.16

### % by age



## % employees by brand

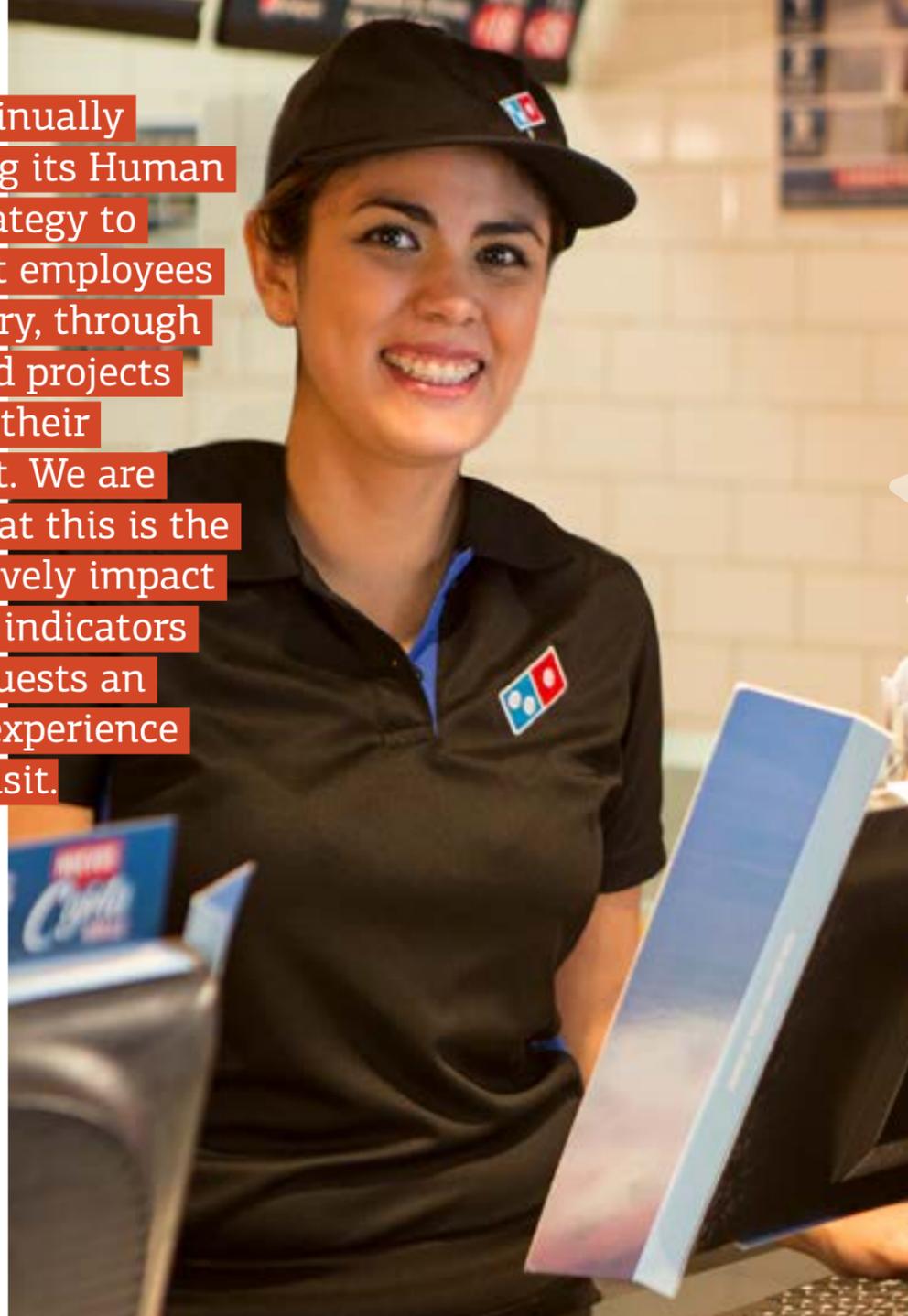
## No. of employees by country



We have strategies focused on developing and retaining the best talent in the industry.

\* Employee data as of December 31, 2017, for Alsea Global.  
\* Information on percentage by position is for Mexico; percentage by gender is global.

Alsea is continually strengthening its Human Resource strategy to have the best employees in the industry, through programs and projects that support their advancement. We are convinced that this is the way to positively impact our business indicators by offering guests an exceptional experience with every visit.



## Manager of the year

We make recognition a pillar of our culture, and regularly distinguish members of our operating team for their service to guests. The “Manager of the Year” prize in 2016 went to Florencia Zapata, and in 2017 to Miguel Ángel González—managers of the Starbucks Galería Güemes in Argentina and the Burger King Plaza Alameda in Chile, respectively. Together with their teams, these individuals achieved outstanding results in terms of same-store sales, EBITDA, order growth, turnover reduction, improved guest satisfaction and quality audit.

2016

Florencia Zapata



2017

Miguel Ángel González



### TRAINING AND GENDER EQUITY

To ensure the fullest development of their skills and build a world-class team, we provide an average of 35.14 hours of training and preparation to each employee per year.

We began a “talent seedbed” program with 49 trainees who today hold the position of restaurant managers, after receiving specialized training in leadership and operation skills.

We succeeded in reducing the time to fill managerial vacancies from 5% to 2.5%, guaranteeing that our restaurants fill vacancies in less than a month, by developing managers-in-training.

### OWNER-MANAGER PROGRAM

For Alsea, the Store Manager is the most important leader, the one who watches out for the team day in and day out, to ensure sustainable profitable development and provide unbeatable experiences for guests at every one of our establishments.

Our Owner-Manager program helps these leaders to strengthen their qualifications and develop the skills needed to improve business decision-making, promote growth opportunities and earn the kind of compensation given to winners, with a holistic, more humane focus.

This program's efforts in 2017 prepared the groundwork for projects that will begin in 2018, to help regional directors and district managers adopt to their new roles and to make them developers of comprehensive leaders who can in turn take Alsea to the next level, strengthening the culture of ownership to face new challenges ahead for the company.

Some of the most outstanding projects at Alsea International are: the *Development 2.0* program in Spain, where employees obtain certification in various positions until becoming restaurant managers, and the *Equality Plan*, which involves a gender equity course for new hires. *Project Management* in Argentina, a joint program with Universidad Austral, assists in training Project and Process managers; *Alsea College* in Chile is a program aimed at Support Center employees and store managers, helping them do their jobs better and prepare them for the future, in courses given by leaders at Alsea Chile who have been trained to empower their skills as facilitators.

For Alsea, an environment of equal opportunities and fair working conditions is a priority. For this reason, we have a *Gender Equity Program* that promotes the recruitment and retention of the best talent on the market and works to increase the proportion of women in managerial positions, offering benefits consistent with industry standards to facilitate development and support the professional careers of women employees.

An average of **35 hours** of operating leadership and personal training a year per employee, including the support and operation center.

**15 in Mexico**  
**25 in Argentina**  
**66 in Chile**  
**19 in Colombia**  
**62 in Brazil**  
**23 in Spain**



We work to close the wage gap by offering competitive compensation to our people, and ensure that every employee is compensated under a model that encourages high performance and promotes the retention of key talent.

**Ps.47 billion** invested in additional compensation for our employees

Managerial stability (%)

- 54 Mexico**
- 56 Argentina**
- 49 Chile**
- 56 Colombia**
- 3 Brazil**
- 79 Spain**

**TALENT RETENTION AND DEVELOPMENT**

At Alsea, we are committed to our employees' development, and we design inter-brand career paths that promote their development and encourage the filling of vacancies internally, taking advantage of the experience accumulated by our own employees while encouraging them to grow and adopt long-term career plans.

This year we began a strategy of standardizing benefits for our managers, a process we expect to complete within the next 3 years. The program encompasses benefits such as grocery vouchers, vacation time, annual bonus, savings fund and vacation bonus.

In order to make sure we are offering the most attractive benefits to our team and ensure they are the first to receive the best experience in our Brands, this year we introduced food-and-beverage discounts in all our markets, with a permanent 30% discount given to all employees who had been with the company for more than three months.

The *Únete* Recruitment and Talent center gave jobs to more than 39,000 candidates seeking managerial and operating positions in 23 states of Mexico.

For the first time, we drafted formal succession plans for the first and second lines of command at the Support Center, which ensures continuity of the company's strategy.

In Colombia, the "Field" human resources model was introduced to facilitate human resource area presence in the stores and improve key business indicators.

Finally, we made considerable progress in our goal of retaining the best talent in the market. Proof of this is the reduction in Alsea's turnover index, compared to the industry average. Turnover among our supply chain employees in Mexico was lowered from 39% in 206 to 32% in 2017. In 2018, the area is aiming for a further reduction of 7%. This has been made possible through constant communication, an attractive salary and benefits package, and the impeccable execution of our Plan 0-90 for new hires, promotion of leadership with a human approach, inter-brand career paths, and the constant pursuit of competitive compensation.

At Alsea Mexico, out of 94 million work hours in the year, 73,000 hours were lost to accidents. At the support center there was an average of 0.08 work hours lost for every 1 million worked. Alsea reports all this data to the Mexican Social Security institute (IMSS) and makes sure it keeps track of the information continuously and effectively.

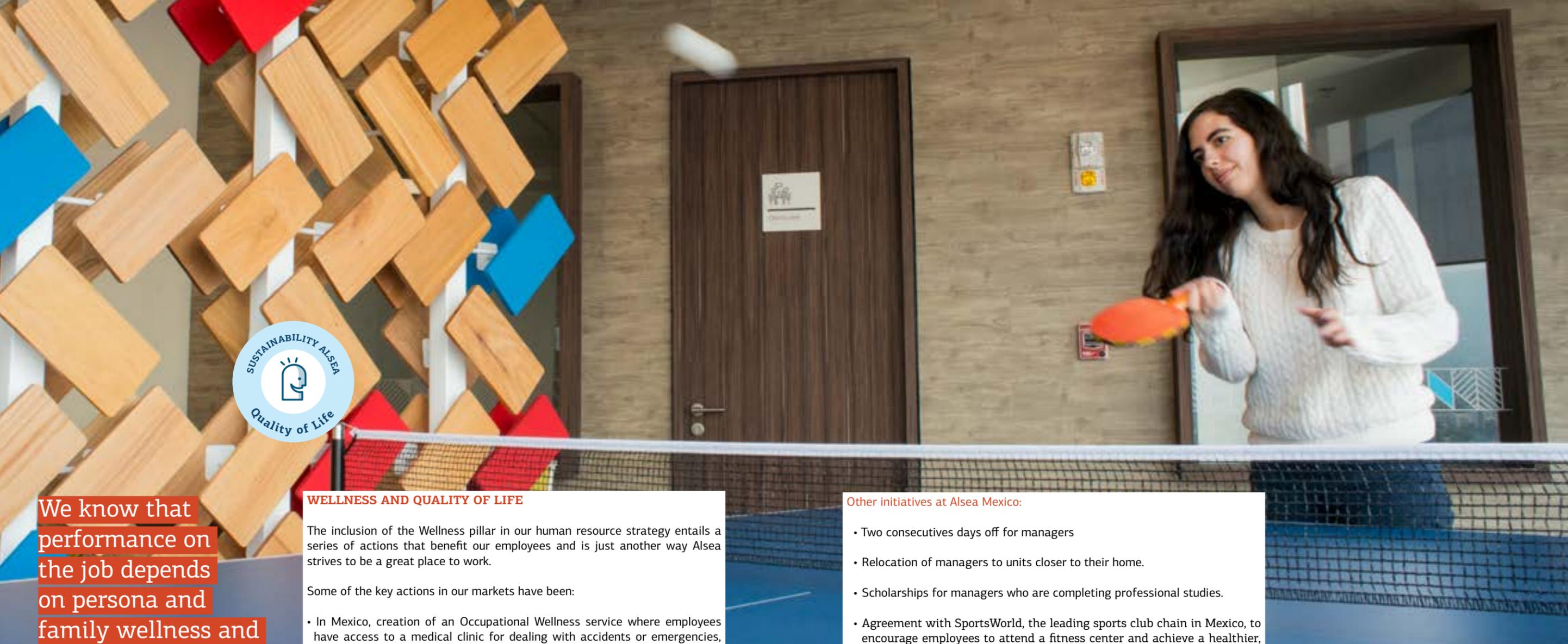
**CULTURE AND COMMITMENT**

We are constantly working to build closer emotional ties between our employees and Alsea, through the experience of our culture, a better quality of life, and a strategy of commitment. Following a company-wide analysis in 2016, each company leader brought together his or her work teams to communicate the results and analyze them, in order to jointly come up with actions for improvement. The result was the creation of 4,659 Effective Impact Plans around the world, 67.6% of which were followed in 2017, laying the groundwork for a stronger team commitment and closer relationships between employees and their superiors.

According to the methodology we use at Alsea, the goal for 2018 is to reach a commitment of between 3.8 and 4.04 (on a scale of 1 to 5), which will mean a closer emotional connection between employees and their superiors.

We intend to continue working to train our leaders to stay close to their people, supporting them, developing them, giving them feedback and increasing their sense of emotional connection with Alsea.

In 2016 we conducted our first corporate commitment survey, and will do so again in 2018. The first survey was answered by 92% of employees, and we hope to do better in 2018, because this is the best way to listen to our employees.



We know that performance on the job depends on persona and family wellness and good quality of life. That's why we take initiatives to help our employees enjoy a balanced lifestyle.

**WELLNESS AND QUALITY OF LIFE**

The inclusion of the Wellness pillar in our human resource strategy entails a series of actions that benefit our employees and is just another way Alsea strives to be a great place to work.

Some of the key actions in our markets have been:

- In Mexico, creation of an Occupational Wellness service where employees have access to a medical clinic for dealing with accidents or emergencies, along with preventive medicine, health fairs, vaccination campaigns and medical checkups.
- In Chile, the Starbucks brand received the "Wellness Revolution" distinction for its promotion of holistic wellness, physical activity, proper eating, health and recreational benefits for its employees.
- Alsea Columbia organized a Health Week in which medical and eye exams were given, along with activities like active breaks.
- In Spain, a "flexible office" plan permits employees of the Support Center to request work at home on certain days, so they can arrange aspects of the personal life that might otherwise conflict with work time.
- In Argentina, we offer additional vacation days of 100% of our employees, giving them an extra day after three years and two more after the fourth year. We also introduced adoptive parents' leave, giving employees 45 days to be close to their new families.

**Other initiatives at Alsea Mexico:**

- Two consecutive days off for managers
- Relocation of managers to units closer to their home.
- Scholarships for managers who are completing professional studies.
- Agreement with SportsWorld, the leading sports club chain in Mexico, to encourage employees to attend a fitness center and achieve a healthier, more balanced lifestyle.
- Keep It Simple, a work system introduced at the Support Center to encourage productivity and cooperation. It includes activities like a effective time planning, which can also be applied to various aspects of daily life.
- Keep it Simple proposes a series of steps--hear, clarify, organize, reflect and act--by which the employee can better organize and plan their time, focusing on actions and projects that really generate value for the business, and thus make decisions more confidently.
- Opening of new offices for the Mexico City Support Center. This new space encourages collaborate work in pleasant surroundings equipped with cutting-edge technology. The project consists of a Training Center for 500 employees, a Talent Recruitment Center that receives more than 100 candidates a day, and a dining room offering nutritious, balanced food, supervised by an expert, at preferential costs to employees. The building has Gold-level LEED certification (Leadership in Energy and Environmental Design), because it is a sustainable building designed to meet key criteria such as accessibility to public transportation, water efficiency, lighting system efficiency, use of renewable materials and resources, proper air quality inside the building, and innovative design, among other qualities. All of this provides employees with a space that promotes teamwork, in a climate of respect and care for the environment.



# OPE RA TING

*efficiency*



BRAND  
PORTFOLIO



BEST  
TALENT



BEST  
OPERATOR



CUTTING-EDGE  
MARKETING



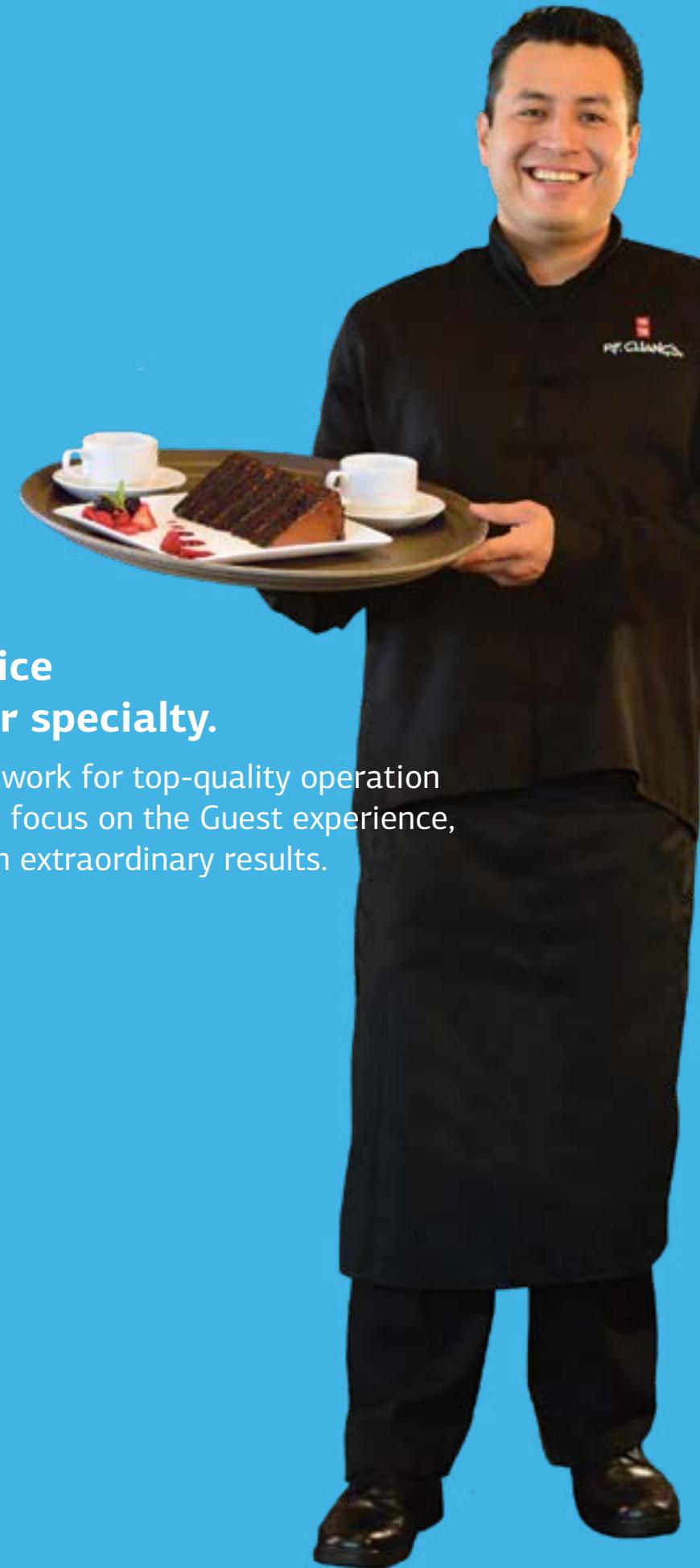
TECHNOLOGY  
AND INNOVATION



SYNERGY AND  
CRITICAL MASS



SUSTAINABILITY



## Service is our specialty.

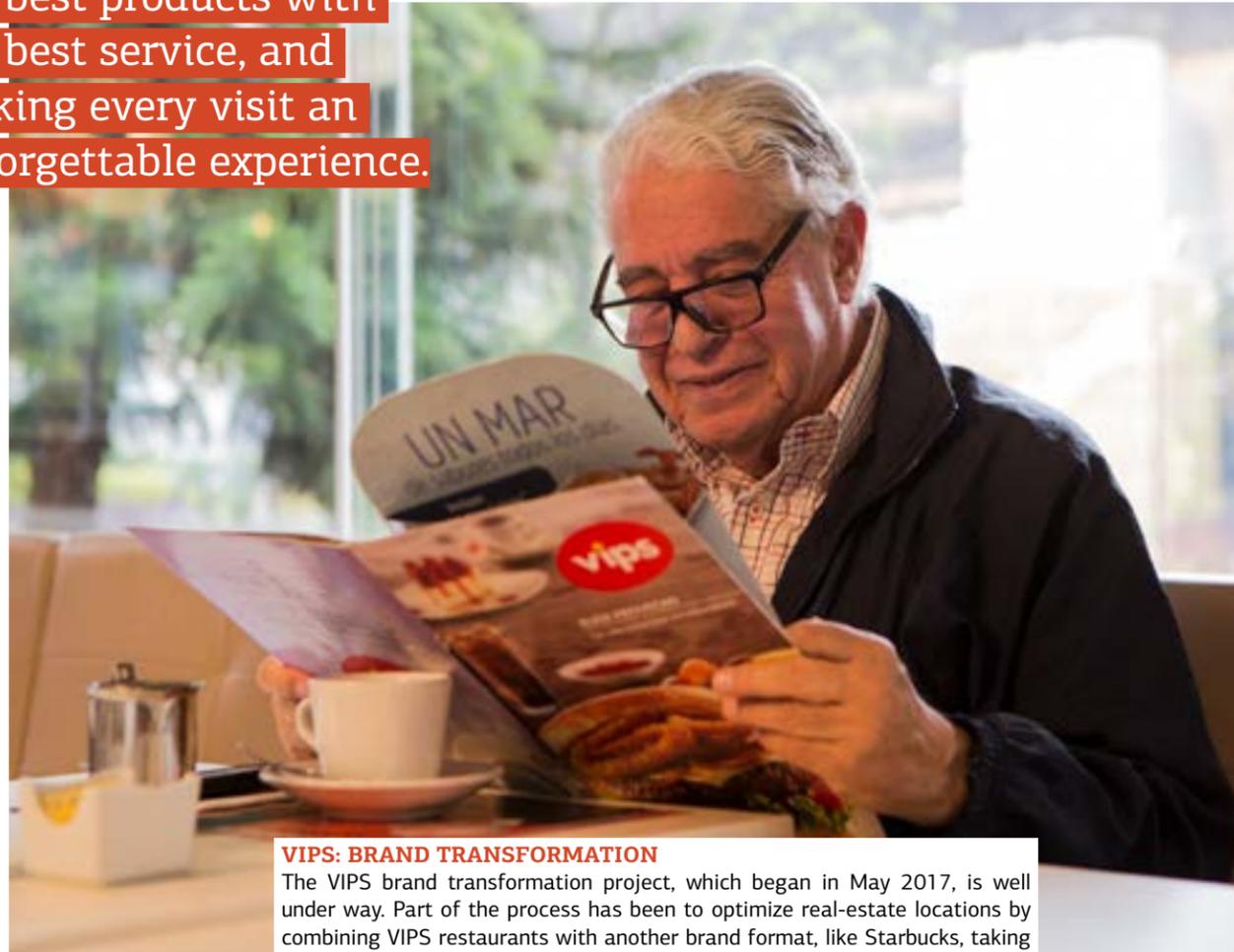
We work for top-quality operation  
and focus on the Guest experience,  
with extraordinary results.



# Profitability

6,466 mdp  
EBITDA

Being the best operator means being more productive, focusing our efforts on reshaping the Guest experience, offering the best products with the best service, and making every visit an unforgettable experience.



**VIPS: BRAND TRANSFORMATION**

The VIPS brand transformation project, which began in May 2017, is well under way. Part of the process has been to optimize real-estate locations by combining VIPS restaurants with another brand format, like Starbucks, taking advantage of areas where guest traffic is heavier.

Another important changes is an overhaul of menu style and content. The new design is very attractive and offers meals and desserts on the same menu-before, they were shown separately, which inhibited guests from ordering.

Finally, the restaurants' identity and layout have been revamped, and their space has been optimized with more two-person tables and sections designed to attend to the various types of guests who visit:

- Kitchen: For casual, quick visits near the bar
- Dining: For frequent visitors looking for a pleasant space
- Family: For larger groups and families with children

**EL PORTÓN: PRIDE OF MEXICAN CUISINE**

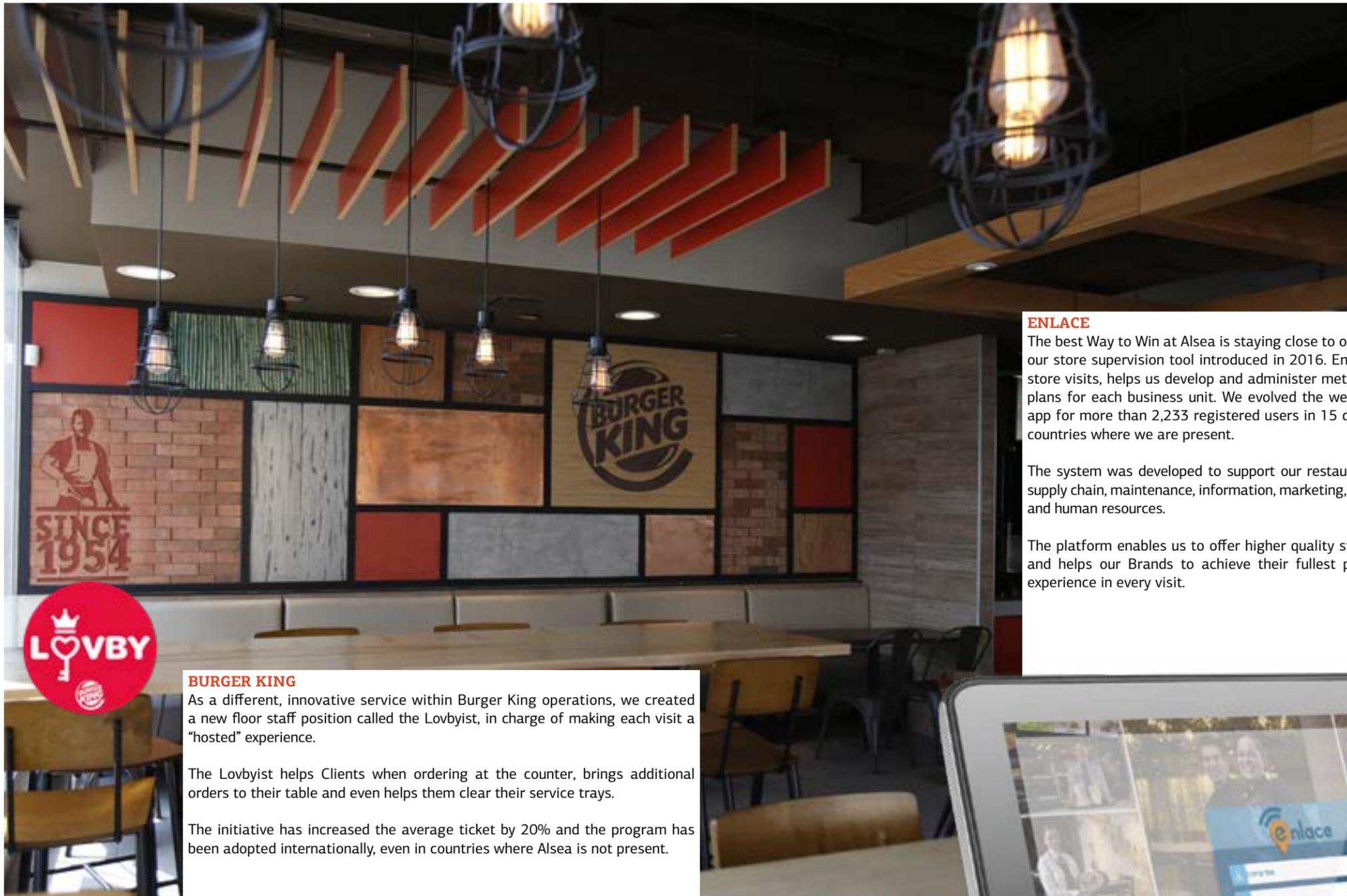
In 2017 we began to remodel these restaurants around a more modern concept based on Mexican cuisine.

As part of this renovation, we introduced a menu of genuine Mexican dishes into more than 30 units, with recipes that reflect the original preparation, only the necessary ingredients, and meticulous preparation of each dish.

We signed an alliance with the Mexican Conservatory of Gastronomic Culture, an institution created to preserve, promote and protect Mexican culinary culture—which makes El Portón a worthy representative of Mexican cuisine, recognized as intangible heritage of humanity by UNESCO.

We have also begun training and developing local suppliers who can offer the highest-quality, local ingredients for our recipes, for example coffee from a cooperative of producers in the El Triunfo Biosphere.





**BURGER KING**

As a different, innovative service within Burger King operations, we created a new floor staff position called the Lovbyist, in charge of making each visit a “hosted” experience.

The Lovbyist helps Clients when ordering at the counter, brings additional orders to their table and even helps them clear their service trays.

The initiative has increased the average ticket by 20% and the program has been adopted internationally, even in countries where Alsea is not present.

**ARCHIES**

Archies has also undergone a service evolution, and focuses on highlighting the Italian side of its culture, involving the entire team.

Our employees have a service protocol that covers everything from the welcome greeting to serving the order and overseeing the experience in the restaurant, through final payment and seeing our guests off at the end of the meal.

We also reformulated the Archies menu, offering a wider selection of Italian dishes and greater cost efficiency. We set standards of gastronomy and food safety and received SERVSAFE certification with a 99% participation by store and district managers.

**ENLACE**

The best Way to Win at Alsea is staying close to operations and using “Enlace,” our store supervision tool introduced in 2016. Enlace gives us information on store visits, helps us develop and administer metrics and keep track of action plans for each business unit. We evolved the website to an easily accessible app for more than 2,233 registered users in 15 different areas of the various countries where we are present.

The system was developed to support our restaurants in managing areas like supply chain, maintenance, information, marketing, technology, quality assurance and human resources.

The platform enables us to offer higher quality standards at every restaurant and helps our Brands to achieve their fullest potential to improve guests’ experience in every visit.

# CUTTING-EDGE marketing

We use every means possible to ensure our Brands provide the best experiences to our guests.

We become a part of their lifestyle, and we take the lead in every market where we operate.



BRAND PORTFOLIO



BEST TALENT



BEST OPERATOR



CUTTING-EDGE MARKETING



TECHNOLOGY AND INNOVATION



SYNERGY AND CRITICAL MASS



SUSTAINABILITY



# Brand

# Connection

We have cutting-edge marketing strategies that build our Brands' value while bringing us closer to guests to offer them experiences, products and PROMOTIONS that meet their needs.

**WOW REWARDS**

A loyalty program that encompassed most of our Brands in Mexico with a single rewards card, where guests can earn points for every purchase and use them to pay for future purchases at our more than 1,300 Alsea establishments in this country.

Wow Rewards gives us valuable insights into the consumption habits and preferences of the guests of each brand. More importantly, we can generate a profile of the "Alsea Guest," giving them incentives to visit the rest of our brand portfolio.

Thanks to the business intelligence behind this program, we have information on more than a million registered users, whose average ticket is 37% higher than that of users who are not yet members.

For 2018, the model will achieve maximum inter-brand synergies by offering personalized promotions and generating new lines of business through strategic alliances with other companies that could give the card to their employees as a benefit or incentive.

**MY STARBUCKS REWARDS**

This Starbucks loyalty program rewards Clients with benefits and options consistent with their tastes and preferences, enriching their Starbucks experience.

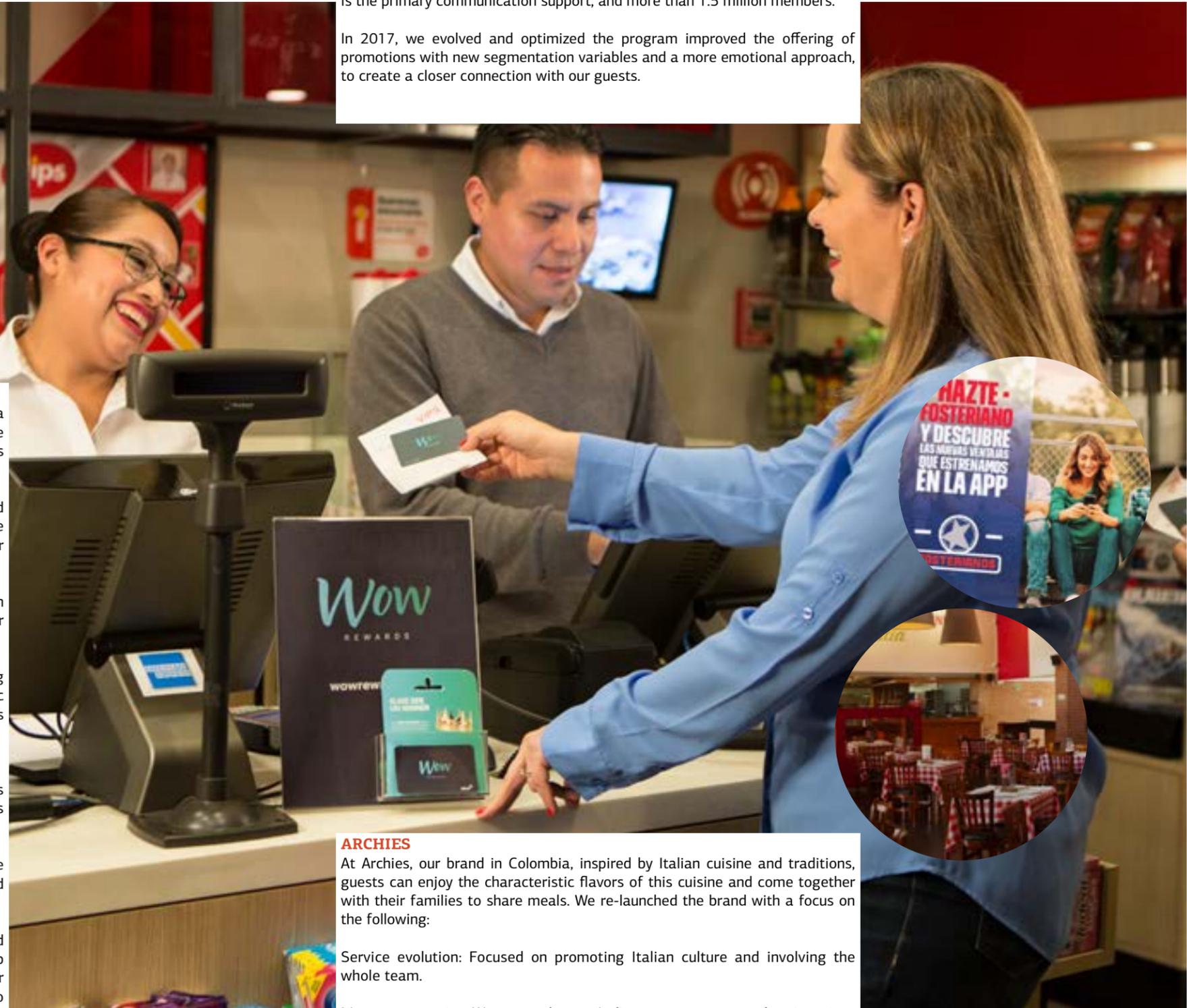
The program requires online registration and a minimum initial credit on the card. From that point on, guests accumulate "stars" with every purchase, and receive benefits and special offers.

In 2017, we launched the program in Argentina to great success and widespread acceptance, and in Mexico we released a new version of the mobile app and updated our web page to continue bringing a variety of benefits to our Customers. The program already has more than 1,453,174 members in Mexico and Argentina.

**FOSTERIANOS**

At Foster's Hollywood, one of our leading Brands in Spain, we continued the "Fosterianos" program, a promotion-based loyalty program that aims to increase visits to the restaurant and boost group consumption for our guests. The program has a growing-rewards system, meaning the more frequent the visit, the greater the benefits. The program includes a smartphone app, which is the primary communication support, and more than 1.5 million members.

In 2017, we evolved and optimized the program improved the offering of promotions with new segmentation variables and a more emotional approach, to create a closer connection with our guests.



**ARCHIES**

At Archies, our brand in Colombia, inspired by Italian cuisine and traditions, guests can enjoy the characteristic flavors of this cuisine and come together with their families to share meals. We re-launched the brand with a focus on the following:

Service evolution: Focused on promoting Italian culture and involving the whole team.

Menu restructuring: We returned to our Italian roots to create authentic recipes and a new assortment of dishes.

Brand essence: we define aspects associated with the brand: territory, personality, distinguishing features, values, essence and image.

Image: we introduced changes to the store structure, menus, uniforms and all the graphic elements that make up the Archies identity.



**STARBUCKS MERMAID FRAPPUCCINO**

At Starbucks Mexico, we created our first locally developed beverage. Inspired by the iconic and mythological two-tailed mermaid, an emblem of the brand, the Starbucks Mexico innovation team created an original recipe based on green melon cream and blue whipped cream, decorated with edible pearls and dust that highlight the striking colors of the beverage.

Since its launch, the brand reports 120,000 additional transactions and a two-point growth in total traffic. The results in digital media was a 1,200% increase in positive sentiment and 2.4 million hits.

**SHARED MARKETING SERVICES**

At Alsea, we have a Shared Marketing Services area by which we generate capacities, benefits and synergies between Brands, by consolidating media, strategic alliances, public relations, loyalty programs, market research and strategic projects. Some examples of these benefits are:

Media: By consolidating our media services into a central area that attends to all our Brands in Mexico, we have saved 50% on the purchase of advertising in both traditional and digital media.

Strategic alliances: We developed a network of alliances with other companies to boost sales and generate more transactions in our establishments, through loyalty programs, market intelligence and brand construction. Some of our partners in these alliances are Banco Santander, Citibanamex, Bancomer, Pepsi, Heineken, Disney and Grupo Expansion, among others.

Public relations: Responsible for stewardship of Alsea's reputation and Brands. We generate response protocols for crisis and emergency situations, establish strategies, procedures and paths of action for every scenario. We assembled a Crisis Committee, which developed a plan that covers every aspects from detection to evaluation of the damages. Our goal is to minimize potential damage for the business and restore the credibility and good image of Alsea and its Brands.



**BLACK LABEL BURGER FOSTER HOLLYWOOD**

In Spain, Fosters Hollywood launched this premium burger, served on truffle-flavored bread, with cheddar cheese and port-caramelized red onion. Since its launch, the brand had increased sales by 6.7%.

**"Stacker Day" at BURGER KING ARGENTINA**

Burger King Argentina joined in the fundraising drive to support Atomic Lab, an innovation company create by Gino Tubaro, a young inventor who created a machine that can make artificial arms and hands through a 3D printing process.

The brand offered a 50% discount on all Stacker combos and sold more than 50,000 units per store per day, donating half the proceeds to this effort. With the funds raised, Atomic Lab provided around 800 3D-printed prosthetic hands for people in need, at no charge.



# INNO

# VAN

# TION

*and  
Technology*

**We make technology  
our closest ally.**

We redefine the industry through  
business intelligence and stay one  
step ahead of the competition.



BRAND  
PORTFOLIO



BEST  
TALENT



BEST  
OPERATOR



CUTTING-EDGE  
MARKETING



TECHNOLOGY  
AND INNOVATION



SYNERGY AND  
CRITICAL MASS



SUSTAINABILITY





*The Alsea effect*

# Business

*Intelligence*

The effects of innovation directly affect the positive experience of our guests. We develop new technological tools, not just to promote our Brands and sell new products, but to achieve higher standards of efficiency and profitability in our operations.



**RE-LAUNCH OF THE DOMINO'S APP IN MEXICO**  
 In 2017 we successfully re-launched our mobile Domino's app, through which guests can place an order without having to know where the closest Domino's is; it also has an integration for registry with Facebook or Twitter.

The app uses geo-location technology to find the user, store information on their profile and program orders up to 7 days in advance. It is integrated with payment systems and a module for tracking the status of the order.

Since its launch, the app has been downloaded 21 million times and has increased brand sales as follows:

- +21% sales**  
increase in  
corporate  
store sales
- +37% sales**  
increase in  
delivery  
channel
- +58%**  
increase in the  
average ticket vs.  
in-store credit  
card payment.

**INTERNAL MANAGEMENT SYSTEMS**

**ERP**

Our business resource planning system is intended to provide support for Alsea International's strategic growth plan through a technological transformation and disruptive evolution of the operational model we had been using. One of the biggest benefits has been substantial savings on the total cost of belonging, meaning the costs involved in purchase and maintenance of the system.

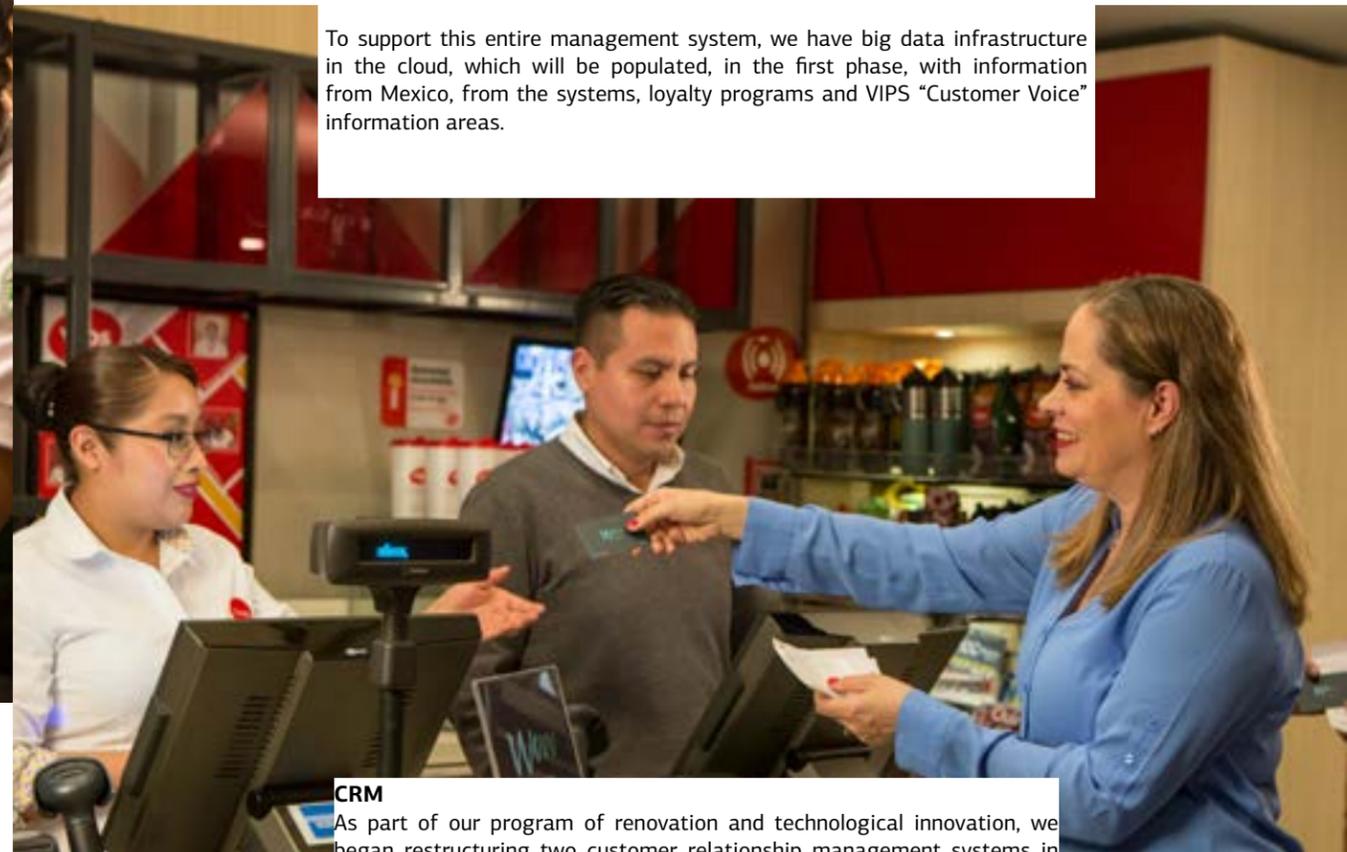
The transformation will position us an international benchmark in our industry, thanks to a global model we will adopt to increase efficiency, standardize and expedite all the processes that support our operations in every country where we operate.

**BI**

Our Business Intelligence project is an information management tool. Under this initiative, we can assemble, purge and transform the data obtained in daily transactions, turning it into a structured base of information ready for direct exploitation through analysis and conversion in to knowledge that will support business decisions.

With the support of the Human Resources area, we defined a structure to consolidate the BI Excellence Center, called CIA.

To support this entire management system, we have big data infrastructure in the cloud, which will be populated, in the first phase, with information from Mexico, from the systems, loyalty programs and VIPS "Customer Voice" information areas.



**CRM**

As part of our program of renovation and technological innovation, we began restructuring two customer relationship management systems in 2017: Starbucks Rewards and Wow Rewards.

In both cases, our aim is to bolster systems for optimizing commercial management, marketing platform and post-sale service, so we can provide our guests with a better brand experience, custom-designed loyalty programs and even inter-brand benefit programs, such as Wow Rewards, which is also in the process of integrating Domino's operations during 2018.

**HCM**

In the Human Resources area, we are introducing Oracle HCM Cloud, a platform that will enable us to align HR processes to manage the entire personnel cycle, from selection and hiring of candidates to professional development, training and succession planning.

# INTE

# GRA

# TION

*and support*

**We attend to every restaurant as if it were the only one.**

We bring them all the inputs they need, 24/7. We are prepared to handle future growth.



BRAND PORTFOLIO



BEST TALENT



BEST OPERATOR



CUTTING-EDGE MARKETING



TECHNOLOGY AND INNOVATION



SYNERGY AND CRITICAL MASS



SUSTAINABILITY





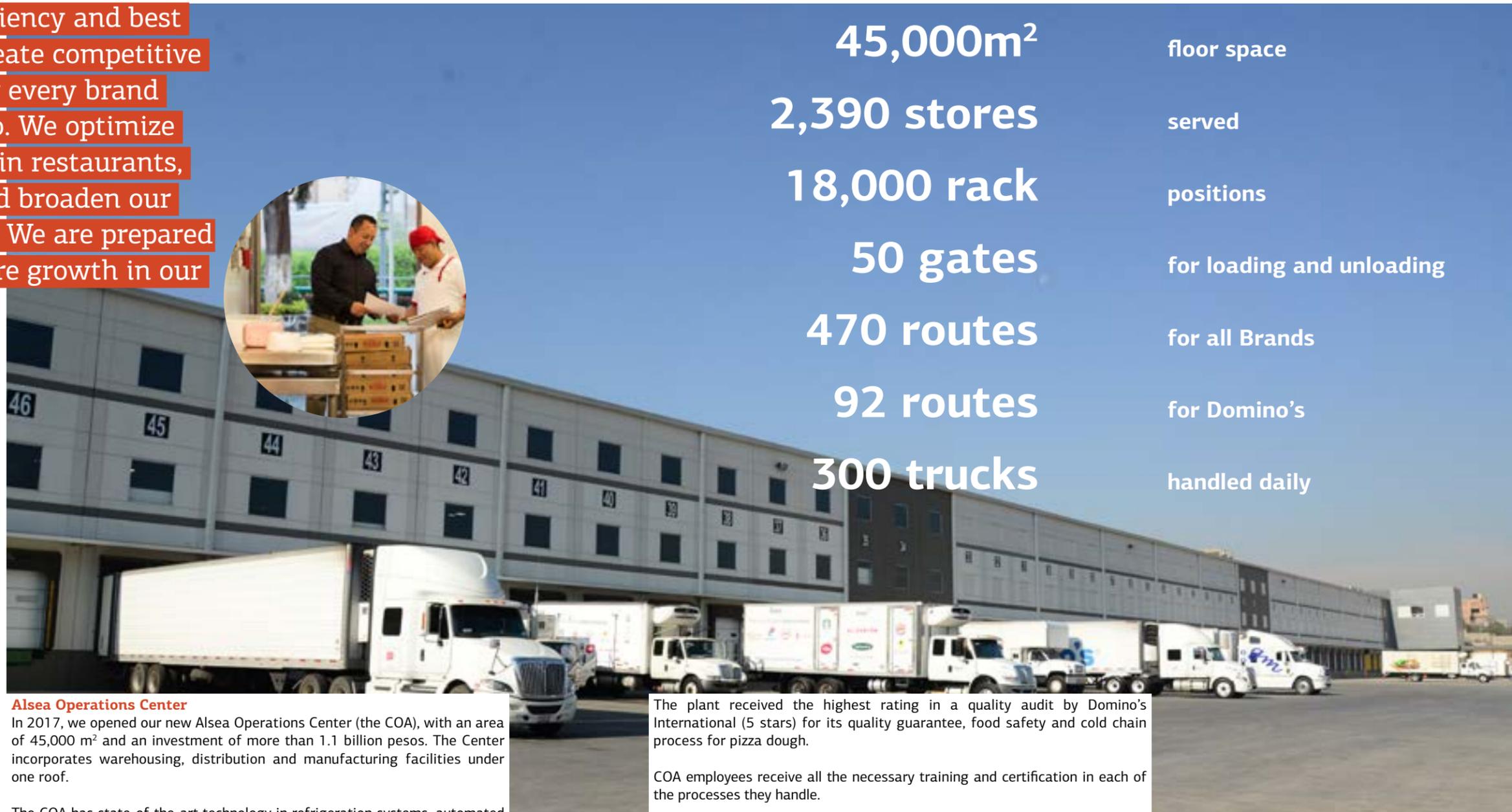
*The Alsea effect*

# Efficiency

**2,390**  
*Stores served*

Our Synergy and Critical Mass model details the way we support our operations with resources, efficiency and best practices to create competitive advantages for every brand in our portfolio. We optimize response time in restaurants, lower costs and broaden our profit margins. We are prepared to handle future growth in our operations.

## COA installed *capacity*



45,000m<sup>2</sup>

floor space

2,390 stores

served

18,000 rack

positions

50 gates

for loading and unloading

470 routes

for all Brands

92 routes

for Domino's

300 trucks

handled daily

### Alsea Operations Center

In 2017, we opened our new Alsea Operations Center (the COA), with an area of 45,000 m<sup>2</sup> and an investment of more than 1.1 billion pesos. The Center incorporates warehousing, distribution and manufacturing facilities under one roof.

The COA has state-of-the-art technology in refrigeration systems, automated meat conservation processes and a wastewater treatment plant.

This new center brings substantial benefits, like improved product quality, optimized response time to restaurants, lower costs, broader profit margins and absolute control over food hygiene.

The plant received the highest rating in a quality audit by Domino's International (5 stars) for its quality guarantee, food safety and cold chain process for pizza dough.

COA employees receive all the necessary training and certification in each of the processes they handle.

Some of the actions that benefit COA employees and the surrounding neighborhood are: the hiring of employees from areas near the facility, locker rooms, dining room, leisure area, parking lot shuttle, and others.

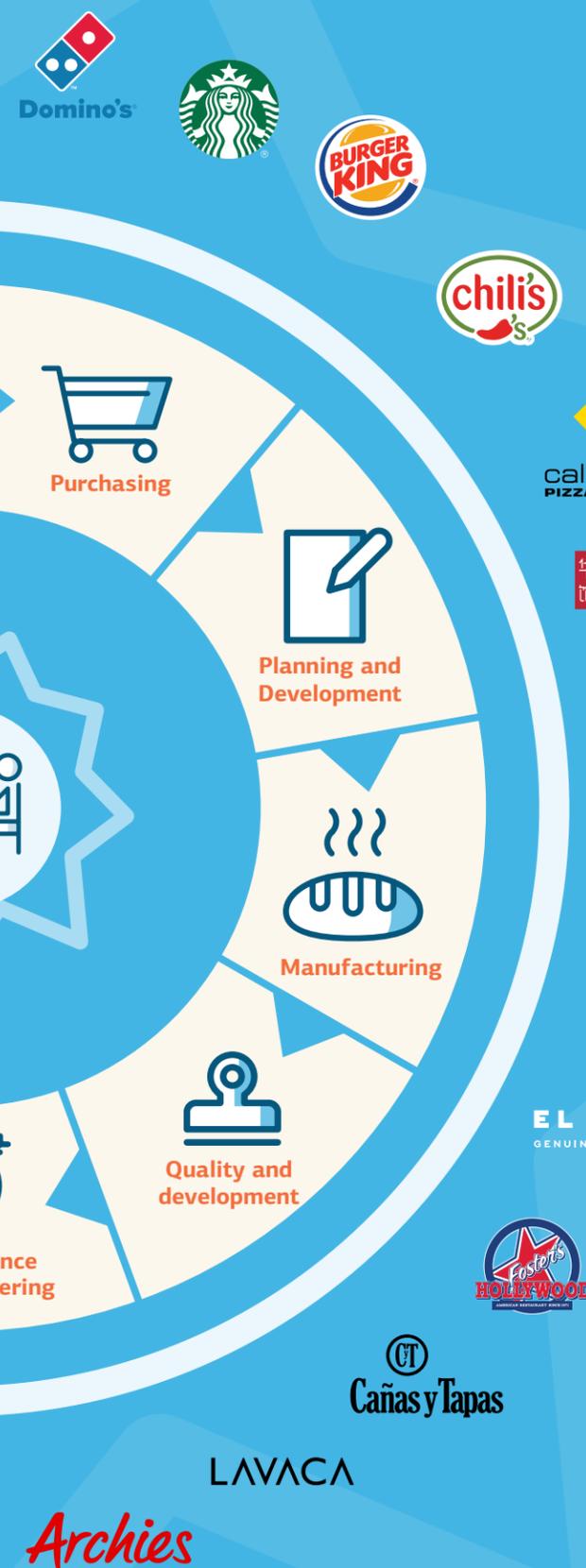
In keeping with our environmental commitment, the COA also introduced initiatives like installation of LED lighting systems, temperature and movement sensors, cutting-edge technology for cooling and freezing areas that require special temperatures, and maximum control of fluctuations, plus fuel-saving equipment, a water capture system, etc.

# Our chain supply

## CONECTA

Is our supply chain cycle. It encompasses all phases involved in the planning, production, distribution and management of resources to connect and resolve the needs of our stores, and thus to satisfy our guests.

Our processes are fully synchronized toward a common purpose: Bringing all the necessary supplies to each store so the manager can focus on meeting and exceeding guests' expectations, making every visit an unforgettable experience.



We connect with Alsea's Brands, helping to "Ignite our guests' spirits"

# POSITIVE TIVE *impact*

**We contribute to the development  
of the communities where we operate...**

... through successful community  
support programs and environmentally  
responsible operations.



BRAND  
PORTFOLIO



BEST  
TALENT



BEST  
OPERATOR



CUTTING-EDGE  
MARKETING



TECHNOLOGY  
AND INNOVATION



SYNERGY AND  
CRITICAL MASS



SUSTAINABILITY



# Sustentabilidad

Impactamos positivamente en nuestro entorno con acciones que marcan la diferencia.

Contribuimos a un desarrollo sostenible y responsable a través de **4 comisiones estratégicas**.

## Calidad de Vida



### Propiciamos el desarrollo integral

de nuestros colaboradores, facilitando las condiciones para que armonicen su vida personal y profesional

## Consumo Responsable



# Shared value

**29,427**  
*hours of volunteer work*

# Our global model Sustainability

Is one of Alsea's ways of winning, and a fundamental value for the business. We want to contribute to sustainable economic development and the interests of society at large. We assume responsibility for the direct and indirect impact of our activities on various stakeholders.

Our sustainability management model involves four commissions that report to the Sustainability Committee, which is made up of members of the company's top management. The Committee identifies stakeholder needs, defines the sustainability strategy and oversees compliance with the initiatives proposed by the commissions.

Our management, action plans and targets are aligned with our business goals, and with the priority aspects identified in our materiality analysis, incorporating the ten principles of the UN Global Compact, which we signed in 2011, and the UN Sustainable Development Objectives.



We pursue food security for vulnerable communities and promote human development through initiatives that favor education and employability.

We support the holistic advancement of our employees, providing them with conditions to harmonize their personal and professional lives and offering occupational safety and health programs.

We promote a balanced lifestyle, integrating the pleasure of a high quality meal and healthy togetherness with physical activity.

We promote environmental care through efficient use of resources: energy, water, inputs and waste.

For more details about our Sustainability strategy, visit: <https://www.alsea.net/sustentabilidad>

# Our materiality

Our 2017 annual report was prepared in accordance with the Core option of the Global Reporting Initiative Standards, and the information presented corresponds to the period from January 1 to December 31, 2017.

In 2017, we strengthened our commitment to stakeholders with a new materiality study in Mexico. This study helped us to identify the aspects that are most transcendent to Alsea, and the expectations of our stakeholders regarding each of those aspects. To conduct this materiality study we followed the Standards methodology provided by the Global Reporting Initiative (GRI).

In carrying out the study we identified and prioritized material aspects that affect our various stakeholders, considering the maturity and risk of industry and social specifiers; we then checked this information through dialogue with some of our stakeholders, and finally related these data with the results of the maturity and risks analysis, obtaining the material issues that had been validated by stakeholders.

The materiality analysis is used as a basis for defining the strategic priorities of our four Sustainability pillars.

The chart below shows our updated materiality matrix, as well as the listing of material aspects for the company.



The resulting material aspects for Alsea were:

- Corporate Social Responsibility Management
- Risk management
- Ethics and integrity
- Corruption/bribery/transparency
- Brand management
- Financial issues
- Operations
- Product and service development, product responsibility
- Customer relationship management
- Environmental policy/environmental management system
- Materials
- Energy eco-efficiency
- Climate change and atmospheric emissions
- Talent recruitment and retention
- Human capital development
- Occupational safety and health
- Human rights
- Social impact
- Vendor standards

In the process of updating our materiality matrix, we were particularly interested in hearing from our employees and our guests, and we learned that the priority aspects of each of these were:

**Employees:**

- Labor practices
  - Equal pay for equal work
  - Human capital development
  - Occupational safety and health

Human rights

- Compliance with international labor standards
- Follow-up on cases of discrimination and measures taken

Training

- Labor aspects
- Health and safety
- Ethics

**Guests:**

- Brand management/products
  - Quality
  - Price
  - Compliance with quality standards

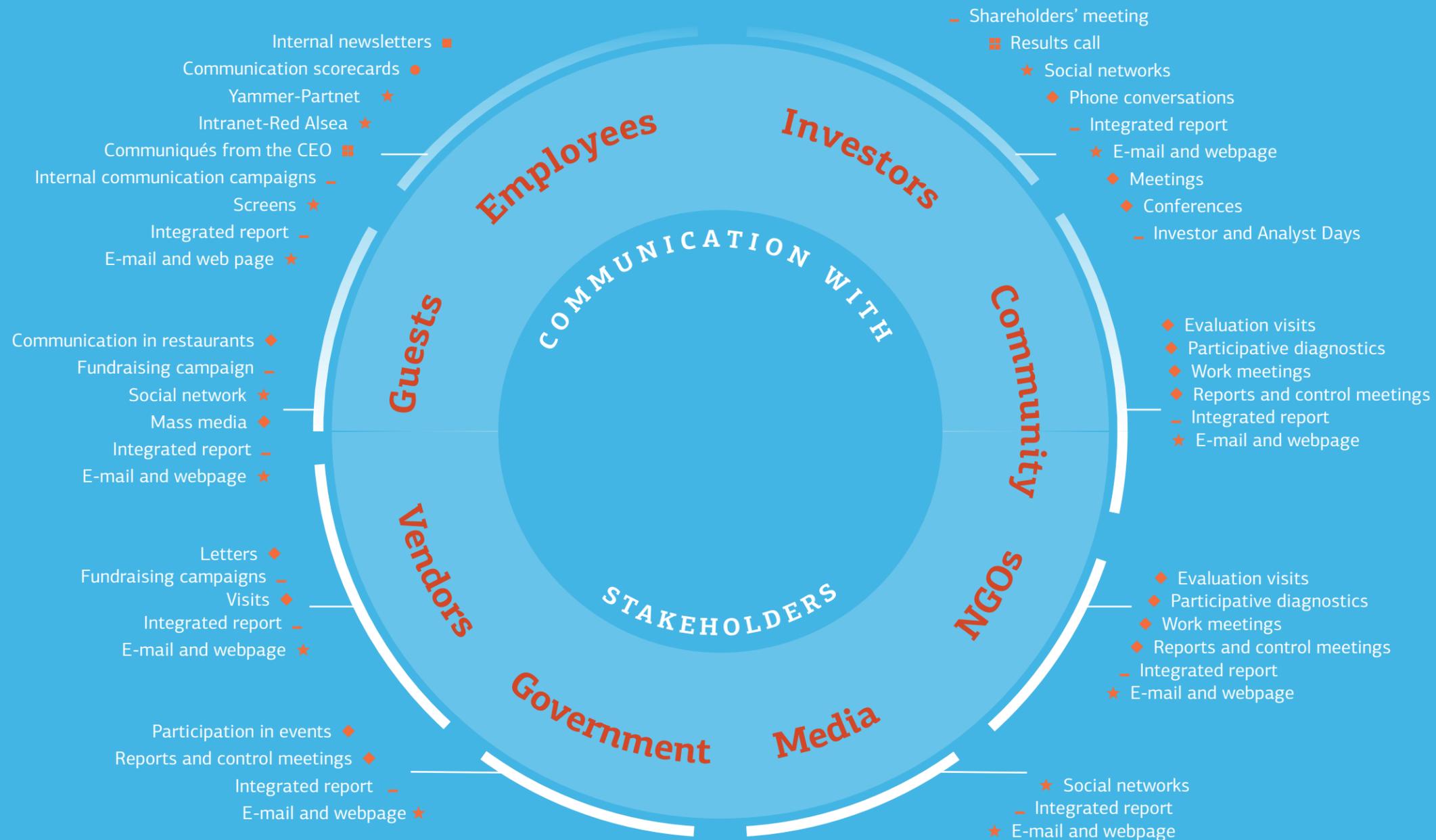
The resulting areas of opportunity—urgent issues—on which we must work to reduce risk factors, are waste management and water resource management.

The generalized issues, are those that should be kept in mind even though Alsea ranks about average in these matters, because they may become more important, and the company needs to be ready to deal with future requirements. These issues are corporate governance and diversity and equal opportunity.

In 2018 we will focus our sustainability strategy on actions to address issues that were found to be material in this study.

# Communications *stakeholder*

At Alsea, we promote direct, clear, timely and constant communication with our various stakeholders.



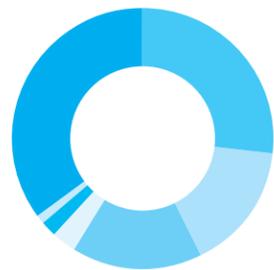
- Weekly (Square)
- Monthly (Circle)
- Continuous (Star)
- Quarterly (Square)
- Annually (Dash)
- Occasionally (Diamond)

Learning about their opinions, suggestions and expectations enables us to anticipate possible risks and take advantage of opportunities that arise around us.

# Support for the community

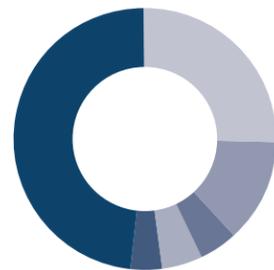


Ps.41mn



RAISED IN DONATIONS (%)

Ps.59mn



MAIN CAUSES (%)

- 35 — "Va por mi cuenta" campaign
- 27 — Alsea and subsidiaries
- 16 — Employee campaign
- 16 — Other brand campaigns
- 4 — Founding partners
- 2 — Other "Va por mi cuenta" allies

- Hunger and nutrition — 48
- Emergencies and natural disasters — 26
- Community development — 13
- Education — 5
- Civic participation — 5
- Mexican gastronomy — 3



We introduced large-scale programs to promote healthy lifestyles, support our vendors, create job opportunities, and actively participate in the communities where we operate by involving ourselves in product projects and fighting childhood malnutrition.

### "Va por mi cuenta" movement

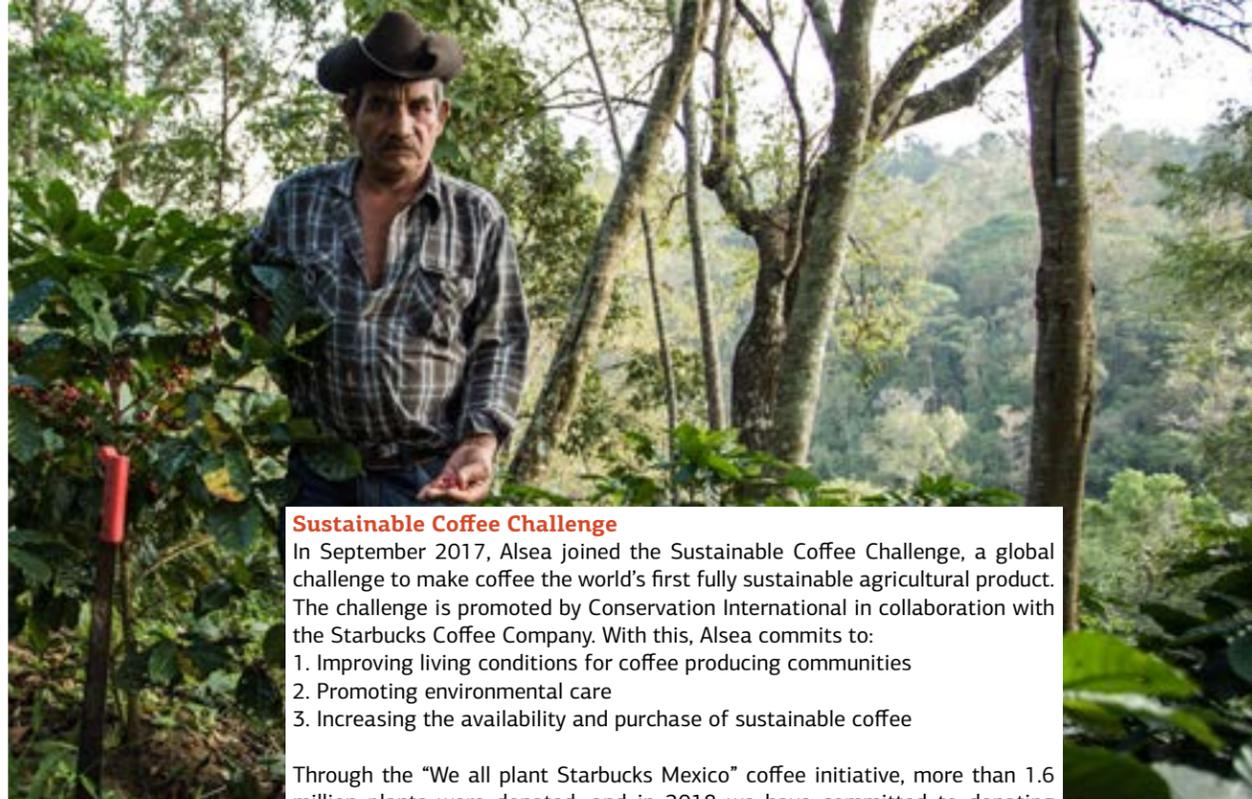
In 2012, Fundación Alsea A.C. committed to build and operate 10 children's food pantries over a five-year period, to help poor children with serious food needs. We are proud to say that in 2017 we met that target, opening two more food pantries in Mexico City and one in Santa Rosa de Lima, Oaxaca, our tenth in the country. We began operating a new socially, economically and environmentally sustainable mode that provides service to rural children and ensures them better dietary conditions. We also fortified our commitment to the Sustainable Coffee Challenge, directly benefiting a coffee-farming community.

In Colombia, the program benefited 239 children through 4 institutions located in Medellín, Bogotá, Soacha and Cali, in an alliance with Fundación Éxito and its "Gen Cero" program, in the following institutions: Misioneras de Cristo Maestro, Fundación Ximena Rico Llano, Fundación Semilla and Fruto ABC Prodein.



## Main achievements

- 29,427 hours of volunteer time in Mexico
- 466,046 nutritious meals served at 10 food pantries in Mexico
- + 61,000 nutritious meals served in Colombia
- 3,500 children with serious food needs helped
- 260 mtons of product donations channeled through food banks
- Ps.16.6 mn in support to families affected by earthquakes in Mexico



#### Sustainable Coffee Challenge

In September 2017, Alsea joined the Sustainable Coffee Challenge, a global challenge to make coffee the world's first fully sustainable agricultural product. The challenge is promoted by Conservation International in collaboration with the Starbucks Coffee Company. With this, Alsea commits to:

1. Improving living conditions for coffee producing communities
2. Promoting environmental care
3. Increasing the availability and purchase of sustainable coffee

Through the "We all plant Starbucks Mexico" coffee initiative, more than 1.6 million plants were donated, and in 2018 we have committed to donating another 70,000.

#### September 7 and 19 earthquakes in Mexico

With the solidarity of thousands of guests and commercial partners, Fundación Alsea A.C. succeeded in raising more than 16.6 million pesos in support for Mexican families affected by the September 7 and 19 earthquakes.

This was possible thanks to:

- 3,545,371 pesos in donations from guests at Alsea establishments, which the company matched one-for-one.
- 794,000 pesos raised through the purchase of participating Brands that donated a portion of their proceeds.
- 3.76 million pesos in donations from commercial partners.
- 5 million pesos in an initial contribution from Fundación Alsea, A.C. to the Carlos Slim Foundation.
- We held a fundraising campaign called "One Day for Mexico," in which we invited employees to donate a day of their salary, which would be matched three-for-one by Fundación Alsea, A.C.. With this initiative we raised a total of Ps. 8,886,698.

This contribution was not just economic: Alsea employees participated in a number of activities to expand the positive impact in affected areas. During the rescue efforts, Alsea Brands provided prepared foods to more than 50,000 volunteers.

After the earthquakes, Alsea worked to help the nation rebuild after this earthquake and reactivate the economy by pursuing three simultaneous priorities: ensuring the safety of our employees, support in volunteer work, and build housing for the poor. We believe our company has a responsibility to procure the safety and growth of the communities where we operate.

Lines of action during the emergency:

1. Support volunteer work, dealing with the national emergency and help reactivate the Mexican economy.
2. Contact all employees to check that they were safe, and provide economic assistance to those who suffered material losses.
3. Help communities whose homes were damaged by helping to build 139 homes together with the National Center for Support in Epidemiological Contingencies and Disasters, which will be built in 2018.

#### Fondo de Oportunidades y Empleabilidad

The Opportunities and Employability Fund is a program sponsored by backed by Starbucks International and Fundación Alsea, A.C., with the goal of supporting disadvantaged youth and giving them access to better living conditions by encouraging their skills and providing them tools so they can find jobs.

#### Mexican Gastronomy

On November 16, 2010, the world's highest cultural authority, the United Nations Education, Science and Culture Organization (UNESCO) declared Mexican traditional cuisine heritage of humanity.

Fundación Alsea, A.C. recognizes the commitment that this implies, and in 2017 it decided to open new lines of action: promoting the preservation and revival of Mexican traditional cooking, safeguarding its uses, customs, cultural practices and flavors.

This past year we sponsored the Fifth World Forum on Mexican Gastronomy, in close collaboration with the Conservatory for Mexican Gastronomic Culture, presenting the first Alsea Merit Award for Traditional Mexican Gastronomy in 2017 to the Grupo de Mujeres de Copoya, from Tuxtla Gutiérrez, Chiapas.

**5 institutions** supporting more than 1,200 beneficiaries in Mexico



**900 restaurants** turned into donation centers, with 12 metric tons of food collected

**+50,000 volunteers** received prepared foods from Alsea Brands



# Responsible consumption

At Alsea, aware of the importance of promoting healthy lifestyles, we have programs to offer our guests the best flavors and highest quality in every dish. For this reason, we have introduced a process of continuous improvement with our vendors to ensure the highest standards of food safety and input quality for the products used in our restaurants.



## Nutritional values and food safety in our products

In recent years, we have made a considerable effort to obtain nutritional values for each of our products, and make them available to our guests in order to inform them of the caloric value of our dishes and help them make decisions according to their lifestyle.

Today, we have this information for 85% of our Brands, and our goal is to reach 100% by June 2018. In line with this commitment, we are engaged in various initiatives, like the "Vips Kids" children's menu, developed in an alliance with Disney, which meets the intake requirements recommended for children by the World Health Organization. The menu takes into account portion size, food processing, and the amount of calories, fats, sugars and sodium, and is supported by the power of Disney stories and characters to attract children to healthier options, proving that eating right can be fun and delicious!

In 2017 we created an internal food safety and quality standard called ICA (Inocuidad y Calidad Alsea), the purpose of which is to standardize guidelines and requirements for ensuring that all the food in our restaurants is handled hygienically. This standard combines the best practices of all our Brands with Mexican official standards and the international "ServSafe" standard, in widespread use across the restaurant industry.

## Responsible procurement

In 2017 we drafted a new Vendor Agreement and completed the process of communicating it to 30% of our vendors. The goal for the close of 2018 is to reach 70%. This agreement includes Alsea's commercial conditions, its Code of Ethics, its expectations of vendors as regards social responsibility, food safety, quality, service and conditions for receiving products at our facilities.

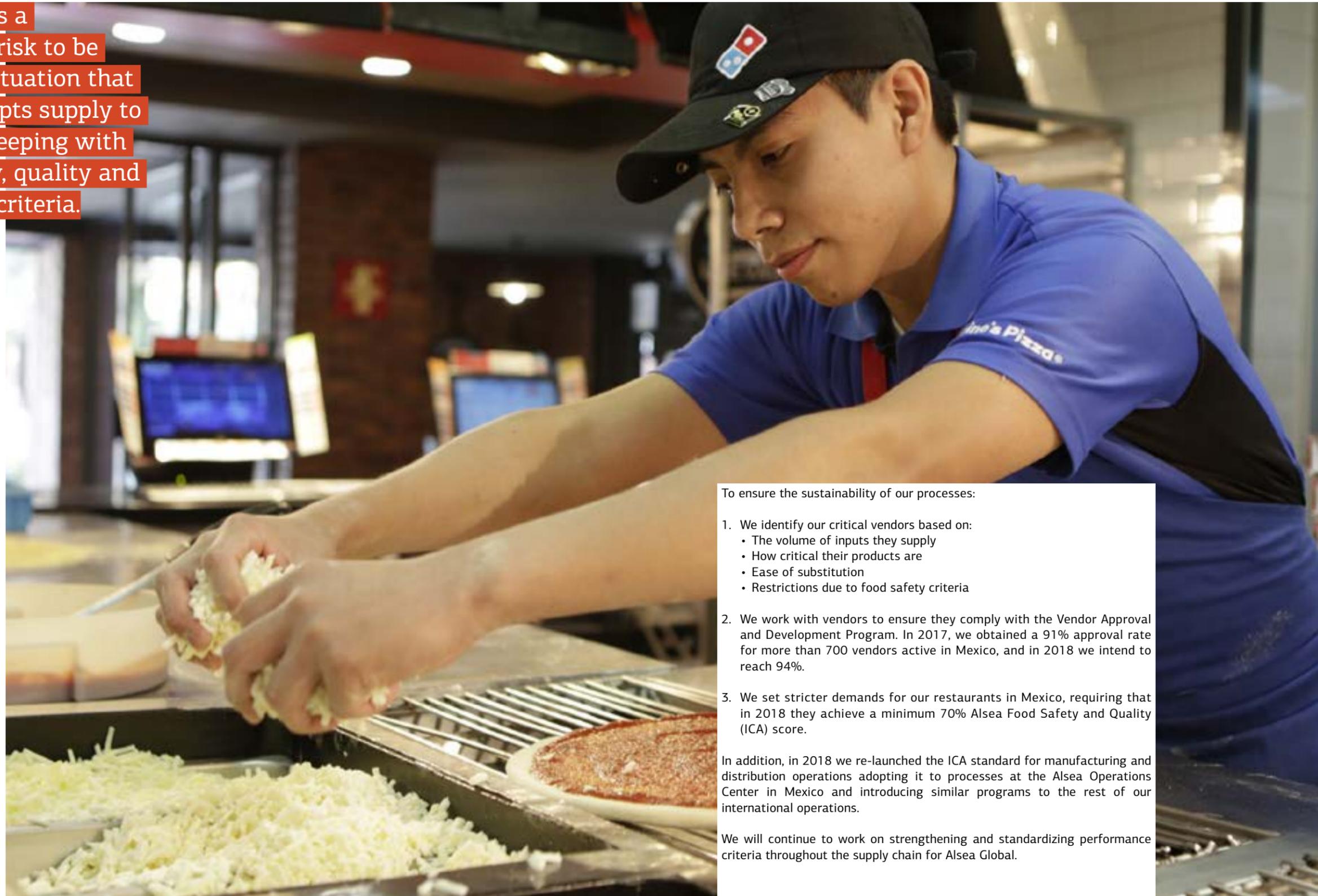
The ICA standard for vendors is intended to ensure that all of these have obtained certification from some system recognized by the Global Food Safety Initiative (GFSI), and international standard intended to ensure food safety across the entire supply chain. To help our small and mid-sized vendors to achieve this, we are offering them the Global Markets tool (also recognized by the GFSI) as a way to develop Safety Systems and gradually improve their processes until obtaining certification.

In line with the commitment Alsea assumed in 2015 regarding humane treatment of animals, in 2017 Alsea Spain used 100% cage-free eggs in its Foster Hollywood, La Vaca and Cañas y Tapas restaurants. This remains a goal for the other countries where we operate, and we will continue to seek out and select the best local vendors for this purpose.

For Alsea, developing local vendors is a priority. Therefore, this year we approved a coffee vendor from the state of Oaxaca: Campesinos Ecológicos de la Sierra Madre de Chiapas (CESMACH), a regional organization of small producers who will supply coffee for the El Portón brand at 10 of its restaurants.

# Integrating sustainability into our supply chain

Alsea considers a sustainability risk to be any effect or situation that blocks or disrupts supply to our stores in keeping with our food safety, quality and sustainability criteria.



To ensure the sustainability of our processes:

1. We identify our critical vendors based on:
  - The volume of inputs they supply
  - How critical their products are
  - Ease of substitution
  - Restrictions due to food safety criteria
2. We work with vendors to ensure they comply with the Vendor Approval and Development Program. In 2017, we obtained a 91% approval rate for more than 700 vendors active in Mexico, and in 2018 we intend to reach 94%.
3. We set stricter demands for our restaurants in Mexico, requiring that in 2018 they achieve a minimum 70% Alsea Food Safety and Quality (ICA) score.

In addition, in 2018 we re-launched the ICA standard for manufacturing and distribution operations adopting it to processes at the Alsea Operations Center in Mexico and introducing similar programs to the rest of our international operations.

We will continue to work on strengthening and standardizing performance criteria throughout the supply chain for Alsea Global.

# Environment

In 2017, we began to purchase clean energy, and starting in November, 211 stores in Mexico were powered by wind energy. We also continued installing energy-saving LED lighting systems in 135 new openings and 58 remodeled stores.

## ECO-EFFICIENCY

[G4-EN3, G4-EN5, G4-EN6, G4-EN15, G4-EN16, G4-EN18, G4-EN19]

Committed to responsibly managing the energy we consume and controlling our emissions, we evaluated internal energy consumption based on the information we report to the National Emissions Registry (RENE), pursuant to the Climate Change Law. All of our new stores in Mexico are equipped with energy-saving LED lighting.

## ENERGY CONSUMPTION (Gj)

1,164,888	Non-renewable energy
787,136	LP Gas
360,525	Natural gas
189,677	Diesel
166,066	Gasoline*
12,853	Renewable energy

In just two months, we reduced our emissions by **2,077 mtons of CO<sub>2</sub>** by acquiring clean energy

\* Total gasoline consumed in utility vehicles, corporate cars and motorcycles used for distribution by our Brands.

Environmental data correspond to operations in Mexico, or 68% of our total operations, with the exception of non-renewable energy and scope 2 emissions, which include our stores in Spain, or 84% of global operations.

Since the year 2016 we have substantially reduced our consumption of diesel fuel and kept our energy consumption steady in total store terms, counting new openings, which shows that the change of habits in stores and distribution facilities is having a positive impact.

Energy [Gj]	2016	2017
Natural gas	352,075	360,525
LP Gas	1,144,942	787,136
Gasoline	150,994	166,006
Diesel	286,545	189,677
Renewable energy	-	12,853
Non-renewable energy	1,156,575	1,164,888
Total	2,886,186	2,468,325

CO<sub>2</sub> emissions from consumption of electricity (indirect) rose 27% in 2017, equivalent to 471.28 metric tons of CO<sub>2</sub>e, attributable to the new emissions factor introduced by the Energy Regulation Commission (CRE), from 0.458 to 0.582 mtons of CO<sub>2</sub> per MWh.

## METRIC TONS OF CO<sub>2</sub> BY ACTIVITY

170,764	Non-renewable energy
49,711	LP Gas
20,245	Natural gas
14,101	Diesel
11,972	Gasoline*

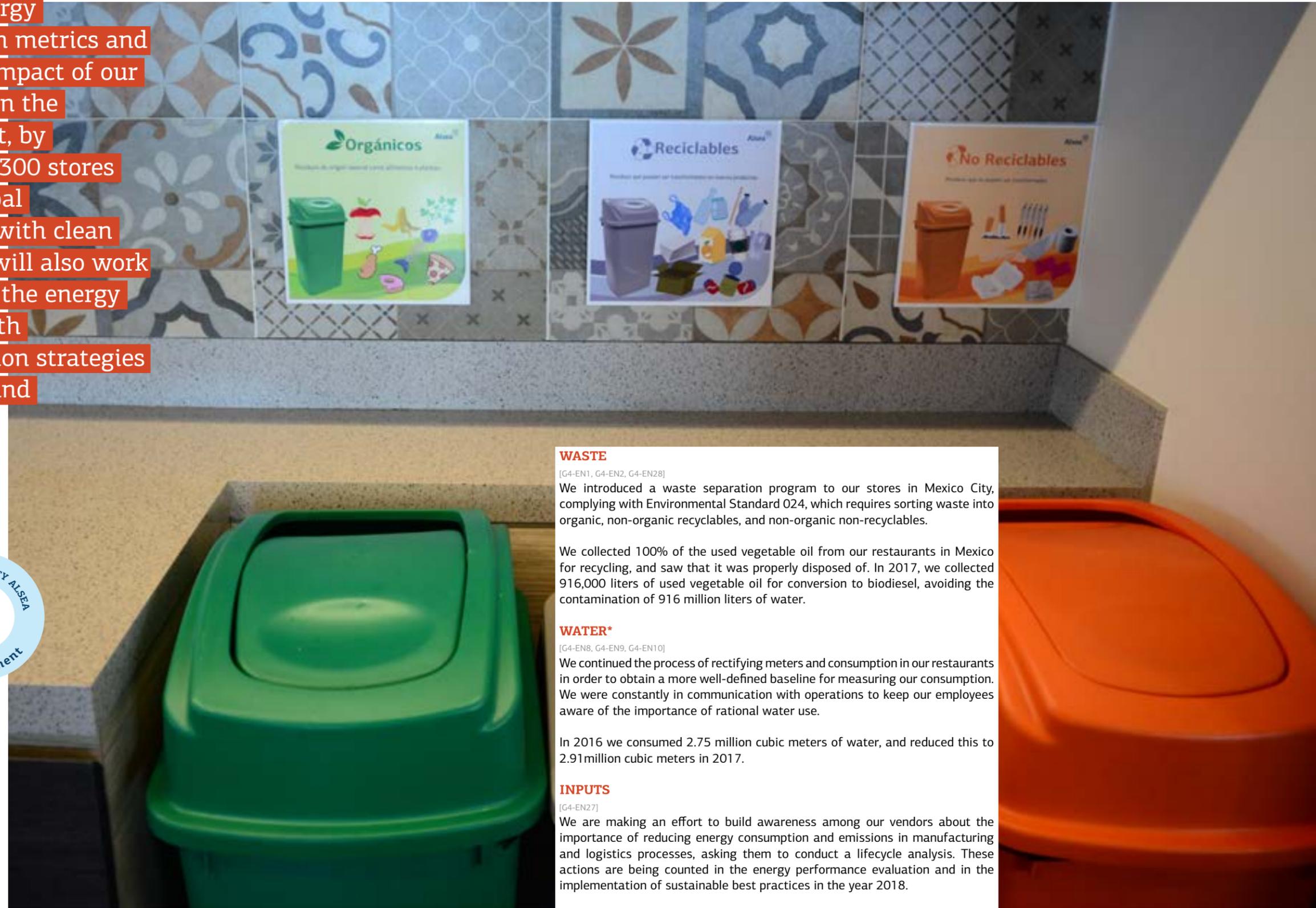
We reduced emissions by **460 mtons of CO<sub>2</sub>** by installing LED lighting in new stores and remodeled units

Emissions [mtons of CO <sub>2</sub> ]	2016	2017
Scope 1: Direct	120,540	96,030
Scope 2: Indirect	137,357	170,764
Total	257,897	266,794
Emission factor mtons CO <sub>2</sub> /MWh (CRE)	0.458	0.582
Emission factor mtons CO <sub>2</sub> /MWh (SPAIN)	0.285	0.285

Our commitment is to improve energy consumption metrics and reduce the impact of our operations on the environment, by supplying 1,300 stores (50% of global operations) with clean energy. We will also work on reducing the energy base line with administration strategies of demand and monitoring.



**916,000**  
liters  
of vegetable oil  
channeled for  
conversion to  
biodiesel



**WASTE**

[G4-EN1, G4-EN2, G4-EN28]

We introduced a waste separation program to our stores in Mexico City, complying with Environmental Standard 024, which requires sorting waste into organic, non-organic recyclables, and non-organic non-recyclables.

We collected 100% of the used vegetable oil from our restaurants in Mexico for recycling, and saw that it was properly disposed of. In 2017, we collected 916,000 liters of used vegetable oil for conversion to biodiesel, avoiding the contamination of 916 million liters of water.

**WATER\***

[G4-EN8, G4-EN9, G4-EN10]

We continued the process of rectifying meters and consumption in our restaurants in order to obtain a more well-defined baseline for measuring our consumption. We were constantly in communication with operations to keep our employees aware of the importance of rational water use.

In 2016 we consumed 2.75 million cubic meters of water, and reduced this to 2.91million cubic meters in 2017.

**INPUTS**

[G4-EN27]

We are making an effort to build awareness among our vendors about the importance of reducing energy consumption and emissions in manufacturing and logistics processes, asking them to conduct a lifecycle analysis. These actions are being counted in the energy performance evaluation and in the implementation of sustainable best practices in the year 2018.

\* Data on water management performance corresponds to our operations in Mexico and Spain, equivalent to 84% of total operations.

# Ethics and corporate governance

At Alsea, we are committed to our vision and our purpose of creating value for our shareholders, employees, guests and the communities where we operate. To achieve this, we follow the strictest guidelines on ethics, accountability, corporate governance and protection of human rights.

## Ethics

Creating an extraordinary experience for our guests and promoting the advancement of our employees is an everyday task for Alsea. I doing so we operate in accordance with our values: Winning Attitude, Engaged Leadership, Surprising Service, Emphasis on Collaboration, and Attention to Detail.

The basis of this conduct is our Code of Ethics which, in line with Alsea's strategic proposal, is our highest guide for making decisions aimed at value creation.

The Code of Ethics applies across all of our operations and around the world, in other words, in every country where we are present, and extending to all our stakeholders: guests, employees and vendors.

In our onboarding program, all employees learn about our Code of Ethics and how the "Right Line" hotline works.

We also have an Ethics Committee created to keep track of possible situations that might endanger our employees, Brands or the company in general, resulting from violations of the established laws and regulations.

Alsea has a principle of political neutrality, and we therefore do not make donations or provide any sort of funding to political parties.



## Línea Correcta

In keeping with our ethical culture, we have a whistleblowers' hotline called "Línea Correcta" (right line), where we receive confidential complaints from our employees and vendors who feel they have witnessed or experienced an unfair or dishonest treatment in their relationship with the company.

In 2017, we received 784 complaints and addressed 92% of them in the year, 18.5% more than the cases we handled in 2016.

For more information on our Code of Ethics, visit:

<http://www.alsea.net/relacion-con-inversionistas/codigo-de-etica>

## Anti-corruption culture

We have an Internal Control area that handles risk management responsibilities and keeps track of activities to avoid any acts of corruption and ensure that hotline complaints are heard and addressed.

We have a training program for our employees that reinforces their understanding of the Code of Ethics and anti-corruption issues. The program is an online course at the end of which each participant must sign in agreement.

## Data protection

We introduced security measures for handling personal data, aware of the potential risks to its confidentiality, integrity and availability, in keeping with current laws and regulations on this matter.

We manage these measures by assigning someone to be responsible for every external point of contact, and we keep them trained through work plans and continuous improvement processes.

Thanks to these measures, we have had no problems with situations of this kind; we will nevertheless continue working to complement and improve our monitoring of the personal data protection management systems for our Brands, plants, distribution centers and corporate offices.

## Organizational structure



## Board of Directors

Our Board of Directors has 12 members, six of which are outside members, and this year we welcomed our first woman to the board as an outside member. Meetings of the Board of Directors may be called to order with a quorum of at least 25% of members present.

The Board Member compensation system is fixed, and is calculated on the basis of meetings attended and committees to which the member belongs, in addition to his or her participation in deliberations and the efficiency of decisions made.

There are two intermediate administrative bodies, made up of outside Board Members, who assist the Board of Directors in its duties. The Executive chairman of the Board is Alberto Torrado Martínez, a related equity board member.



## Corporate Practices Committee



### Duties and responsibilities

- Suggest criteria to the Board of Directors for appointing or dismissing the Chief Executive Officer or other senior executives of the company.
- Propose to the Board of Directors the criteria for evaluating and compensating the Chief Executive Officer and other senior executives of the company.
- Recommend criteria to the Board of Directors for severance payments to made to the Chief Executive Officer or other senior executives of the company.
- Recommend criteria for compensation to Board Members.
- Analyze the Chief Executive Officer's proposal regarding the structure and criteria for compensating employees.
- Analyze and present to the Board for its approval the statement that the company is a socially responsible corporation, the Code of Ethics, and the whistleblower system and principle of non-reprisal.
- Analyze and propose to the Board of Directors a formal succession plan for the Chief Executive Officer or other senior executives of the company, and ensure that the plan is followed.
- Study and propose to the Board of Directors a strategic vision for the company to ensure its stability and permanence over time.
- Analyze the general guidelines presented by the CEO to determine the company's strategic plan and follow up on its implementation.
- Evaluate investment and financing policies proposed by the CEO and provide an opinion to the Board of Directors.
- Provide an opinion on the premises for the annual budget presented by the CEO and follow up on its application, as well as the control system.
- Evaluate the mechanisms presented by the general management to identify, analyze, administer and control the risks affecting the company and provide an opinion to the Board of Directors.
- Evaluate the criteria given by the CEO for disclosing the risks affecting the company and provide an opinion to the Board of Directors.

\* Consejo de Administración y Comités conformados a Diciembre de 2017

## Audit Committee



### Duties and responsibilities

- Recommend candidates to the Board of Directors for external auditors of the company, hiring conditions and scope of their professional work, and oversee their execution
- Serve as a channel for communication between the Board of Directors and the external auditors, and ensure the independent and objectivity of the latter.
- Review the work program, letter of observations and internal and external audit reports and inform the Board of Directors of the results.
- Meet regularly with internal and external auditors without the presence of company executives to hear their comments and observations on the progress of their work.
- Provide an opinion to the Board of Directors regarding the policies and criteria used in preparing the financial information, and the process of issuing it, ensuring its reliability, quality and transparency.
- Help define the general guidelines for internal control and internal audit and evaluate their effectiveness.
- Check that the mechanisms established to control the risks affecting the company are duly followed.
- Coordinate the work of the internal auditor and statutory auditor, if one is appointed.
- Help establish policies for transactions with related parties.
- Analyze and evaluate transactions with related parties and provide a recommendation to the Board of Directors.
- Decide on the hiring of outside experts to provide an opinion on the transactions with related parties or other matters that may be useful to the committee in its duties.
- Verify compliance with the Code of Ethics and the whistleblower system and principle of non-reprisal.
- Assist the Board of Directors in analyzing contingency and data recovery plans.
- Ensure that the necessary mechanisms are in place to ensure that the company complies with various legal provisions.

## Institutions in which Alsea participates

American Chamber of Commerce of Mexico  
 Asociación Mexicana de Comunicadores Organizacionales, A.C.  
 Asociación Nacional de Tiendas de Autoservicio y Departamentales, A.C. (ANTAD)  
 Cámara Nacional de la Industria de Restaurantes y Alimentos Condimentados (CANIRAC)  
 Centro Mexicano para la Filantropía, A.C. (CEMEFI)  
 Confederación Patronal de la República Mexicana (COPARMEX)  
 ConMéxico  
 Consejo Coordinador Empresarial (CEE)  
 Consejo de la Comunicación, A.C. (CC)  
 Consejo Mexicano de Negocios, A.C.  
 Grupo Dicares, A.C.  
 Mexicanos vs Corrupción e Impunidad, A.C.  
 Movimiento por una Vida Saludable (MOVISA)  
 United Nations Global Compact

As part of our commitment to a better future for all, we adhere to the Principles of the UN Global Compact and Sustainable Development Goals.

## Principles of the United Nations Global Compact

### Human Rights

**Principle 1:** Companies should support and respect the protection of internationally proclaimed human rights within their area of influence.

**Principle 2:** Companies should make sure that they are not complicit in human rights abuses.

### Labor Aspects

**Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

**Principle 4:** Business should support the elimination of all forms of forced and compulsory labor.

**Principle 5:** Business should support the effective abolition of child labor.

**Principle 6:** Business should support the elimination of discrimination in employment and occupation.

### Environment

**Principle 7:** Businesses should maintain a precautionary approach to environmental challenges.

**Principle 8:** Businesses should undertake initiatives to promote greater environmental responsibility.

**Principle 9:** Businesses should encourage the development and diffusion of environmentally friendly technologies.

### Anti-Corruption

**Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.

# Annual Report of the Corporate Practices Committee

to the Board of Directors of Alsea, S.A.B. de C.B.:

Mexico City, February 26, 2018

In keeping with Articles 42 and 43 of the Securities Market Act, and on behalf of the Corporate Practices Committee, I hereby present the report on the Committee's activities during the year ended December 31, 2017. In carrying out our work, we have followed the recommendations of the Code of Best Corporate Practices.

To analyze the material results of the Company, the Committee held meetings as necessary to ensure proper follow-up on the agreements reached in pursuit of its duties, inviting any officers of the Company it deemed appropriate to attend.

To fulfill its responsibilities, this Committee carried out the following activities:

1. During the period covered by this report, we received no requests for exemption as established in article 8, section III point f) of the Securities Market Act, so no recommendation in this regard was necessary.
2. The quarterly and year-to-date results of the 2017 Market Liquidity Plan were presented.
3. We received the updated shareholder cost calculation for the close of each quarter of 2017, using the methodology authorized by the Board of Directors.
4. We received a quarterly summary of transactions that were carried out to hedge risk through exchange-rate forwards (peso-dollar) during the year. These transactions were performed as authorized, in other words, in order to hedge the exchange-rate risk of Company operations based on the authorized budget.
5. We received the 2018-2022 Strategic Plan and recommended that it be presented to the Board for approval.
6. Together with management, we reviewed the bank financing strategy, the corresponding hedging of long-term loans, and compliance with any covenants assumed by the Company.
7. We reviewed the draft of the 2017 budget and recommended that it be presented to the Board for approval.
8. We supervised the compensation plan for key executives, and recommended that it be presented to the Board for approval.
9. We were informed of the succession and talent development plans for senior executives.
10. We received the results of the performance evaluations of key executives in 2017.
11. We received the 2017 compensation strategy prepared by the Corporate Human Resource Department for the various levels of management, and recommended that the Board approve it.
12. The Office of the Chief Executive Officer informed us of adjustments to the company's organizational structure.
13. In each and every meeting of the Board of Directors, we presented a report on the activities of the Corporate Practices Committee and recommended it to the Board for ratification and/or approval, as necessary.

Finally, I would like to comment that during the activities carried out by this committee, including preparation of this report, we have at all times been informed of and taken into consideration the viewpoint of key executives, which did not differ from our own to any material extent.



Corporate Practices Committee  
**Julio Gutiérrez Mercadillo**  
Chairman

# Annual Report by the Audit Committee

to the Board of Directors of Alsea, S.A.B. de C.V.:

Mexico City, February 26th, 2018

In keeping with Articles 42 and 43 of the Securities Market Act and the Audit Committee Regulations, I hereby present this report of this committee's activities during the year ended December 31, 2017. In carrying out our work, we have followed the recommendations of the Code of Best Corporate Practices and the work program that was drawn up based on the Committee Regulations. We met at least each quarter to carry out the following activities:

## I. RISK EVALUATION.

We reviewed, in conjunction with the Board of Directors and the External Auditors, critical risk factors that could affect the Company's operations, ensuring that these risks were appropriately identified and managed.

## II. INTERNAL CONTROL.

We ascertained that the Board of Directors, in accordance with its responsibilities in the area of internal control, had established all the necessary processes and policies. We also followed up on the comments and observations made by the Internal and External Auditors during the course of their work.

## III. EXTERNAL AUDITS.

We recommended that the Board of Directors hire Auditors that were independent of the Group and its subsidiaries for the 2016 fiscal year. To this end, we ascertained the independence of the auditors hired as well as their compliance with all legal requirements. We analyzed, in conjunction with the Auditors, their approach and their audit program.

We maintained constant and direct communication with them in order to learn of their progress and any observations and comments they might have regarding their review of the annual financial statements. We were informed promptly of their conclusions and reports regarding the annual financial statements, and followed up on the observations and recommendations they made during the audit process.

We authorized the fees paid to the external auditors for the audit and other permitted services, ensuring that these payments did not compromise the firm's independence. Taking into account the opinion of the Board of Directors, we evaluated their services in the previous year, and we began the evaluation process corresponding to fiscal year 2017.

## IV. INTERNAL AUDIT

In order to maintain its independence and objectivity, the Internal Auditing area reports functionally to the Audit Committee.

At the appropriate time, we reviewed and authorized the annual work program. To draft this program, the Internal Auditing area assisted in identifying risks, setting up and verifying control measures.

We received regular reports regarding progress against the working agenda, in addition to any changes that may have been made, and the reason for said changes.

We followed up on observations and suggestions presented, and ensured they were promptly addressed.

## V. FINANCIAL INFORMATION, ACCOUNTING POLICIES AND THIRD PARTY REPORTS

We reviewed the process for preparing the company's quarterly and annual financial statements together with the persons responsible for this process, and recommend that the Board of Directors approve and authorize publication of these statements. As part of this process, we took into account the opinion and observations of the independent auditors and ascertained that the accounting and reporting criteria and policies used by Management in preparing the financial formation were appropriate and sufficient and had been applied in a manner consistent with the preceding fiscal year. As a result, the information presented by Management reasonably reflects the financial position, operating results, cash flow and changes in financial position for the Company, in the year ended December 31, 2017.

We also reviewed the quarterly reports prepared by Management for presentation to shareholders and the general public, ensuring that they were prepared in accordance with International Financial Reporting Standards (IFRS) and using the same accounting criteria applied to prepare the annual information. We were able to verify that there is a comprehensive process in place that provides reasonable certainty as to their content. In each case, we concluded with a recommendation that the Board authorize these reports for publication.

## VI. COMPLIANCE, LEGAL ISSUES AND CONTINGENCIES

We confirmed the existence and reliability of the control measures established by the Company in order to ensure compliance with the various legal provisions governing it, ensuring that they were adequately disclosed in the financial report.

We regularly reviewed the Company's tax, legal and labor contingencies; the efficacy of the procedure for identifying and tracking these contingencies; and their appropriate disclosure and recording. Four tax contingencies were identified, along with 2 legal matters that were initiated in and have been reported since (2014 and 2015), and one new tax issue. All of these were monitored closely and on a timely basis in fiscal year 2017:

- a) In 2014, the Mexico City Ministry of Finance ruled that Italcafé S.A. de C.V. was liable for back taxes in fiscal year 2010 stemming from deposits made to its bank accounts as a result of the operation of a number of restaurants owned by Grupo Amigos de San Ángel, S.A. de C.V.; even though that income was generated by this latter company, which should assume all all corresponding fiscal obligations. This case is currently being studied by the District Attorney's Office in Mexico City.
- b) In 2014, the federal tax authorities (SAT) initiated two procedures to establish onerous effect and thus repeal rulings issued in favor of Distribuidora e Importadora Alsea, S.A. de C.V. (DIA) and Café Sirena, S. de R.L. de C.V. (Café Sirena), authorizing the application of a 0% VAT rate on sandwiches (during fiscal years 2010, 2011, 2012 and 2013). The Sixth Collegiate court in Administrative Matters of the First Circuit, which was assigned the Café Sirena case for studying and drafting the proposed ruling, estimates that given the complexity of the matter, it may still take a number of months more to reach a conclusion.

A ruling against the company in the DIA case was handed down by the Plenary Session of the Federal Court of Administrative Justice on November 15, 2017, but the Company intends to file the appropriate appeals.

- c) In 2015, the federal tax authorities (SAT) began a review of the Company's 2013 tax return in order to verify the Group's Fiscal Consolidation. In October 2016, the SAT issued observations, on which the Company sought the appropriate clarifications. The applicable observations included some relating to subsidiary companies' tax losses. The necessary corrections were made in the month of May 2017 and the SAT issued its final opinion with no further observations.
- d) In March 2016, the SAT conducted an on-site audit of the business addresses of Grupo Amigos de San Ángel, S.A. de C.V. (GASA) and Italcafé S.A. de C.V. (Italcafé) for information on fiscal years 2010 and 2011, respectively. In November, the last partial reports were issued, finding outstanding tax charges of MXN 55.2 million pesos, relating to unidentified deposits, in the opinion of the authorities. Additional information was submitted in December in order to clarify and refute those findings. In addition, a Conclusive Ruling was requested from the Taxpayer Advocacy Agency (PRODECON), a proceeding that is still under way.
- e) In December 2017, the federal tax authorities (SAT) began a new audit of Alsea, S.A. de C.B. (Alsea) in connection with its tax returns for fiscal year 2015. This was the product of a sequential inspection begun against the Public Accountant who audited those results for tax purposes. An official notice was received from the SAT advising the company that the information presented by that Public Accountant regarding his review was insufficient to complete the review. The company promptly and fully responded to the request for additional information.

- f) In October 2015, the Federal Economic Competition Commission (COFECE) imposed a fine of MXN 25,694,356.95 on Alsea, stating that it should have been notified Alsea's acquisition of 25% of Grupo Axo before that transaction was closed.

Alsea appealed this ruling, with the resolution and obtained a writ of constitutional protection (amparo) in December 2016. The ruling of the amparo judge was in turn appealed, a process which is still on-going.

- g) In November 2015, COFECE imposed a fine of MXN \$20,461,393.65 on Alsea, arguing non-compliance with the obligation to include a non-exclusivity clause in some lease contracts in shopping malls.

Alsea also appealed this ruling, and in December 2017 the final ruling was handed down in this case, confirming the original decision in Alsea's favor and requiring COFECE to issue a new ruling.

The new ruling issued by COFECE imposed a lower fine of MXN 13.6 million pesos. Alsea does not believe this new ruling complies with the order of the Collegiate Court, and has filed for a new writ of amparo against it.

#### VII. ADMINISTRATIVE ASPECTS.

We organized regular meetings with Management, to remain abreast of the Company's progress, its activities and all relevant and unusual events. We also met with the internal and external Auditors to discuss their progress and learn of any limitations they may have encountered and facilitate any private communication they wish to have with the Committee.

In cases where we deemed appropriate, we requested the support and opinion of independent experts. We were not made aware of any possible significant acts of non-compliance with operational policies, the internal control system or financial reporting policies.

We held executive meetings exclusively with Committee members, during which we developed agreements and recommendations for the Board of Directors.

The Chairman of the Audit Committee issued quarterly reports on the Committee's activities to the Board of Directors.

The work we carried out was duly documented in minutes prepared during each meeting, which were then promptly reviewed and authorized by the members of the Committee.

Sincerely,



**Ivan Moguel Kuri, C.P.A.**  
Chairman of the Audit Committee

Alsea, S.A.B. de C.V. and Subsidiaries

## **INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2017, 2016 AND 2015**

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# Independent Auditors' Report

to the Board of Directors and Stockholders  
of Alsea, S.A.B. de C.V.

## Opinion

We have audited the accompanying consolidated financial statements of Alsea, S.A.B. de C.V. and Subsidiaries (the Entity), which comprise the consolidated statements of financial position as of December 31, 2017, 2016 and 2015, and the consolidated statements of income, consolidated statements of other comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Alsea, S.A.B. de C.V. and subsidiaries as of December 31, 2017, 2016 and 2015, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board.

## Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Entity in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* (IESBA Code) together with the Code of Ethics issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP Code. 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 which, according to our professional judgment, have the greatest significance for our audit of the consolidated financial statements of the current period. They have been handled within the context of our audit of the consolidated financial statements taken as a whole and the formation of our opinion in this regard. Accordingly, we do not express a separate opinion on these matters. We have decided that the issues described below constitute the key audit matters that must be included in our report.

## Impairment of Long-Lived Assets

The Entity has determined that the smallest cash generating units are its stores. It has developed financial and operating performance indicators for each of its stores and performs an annual study to identify indications of impairment. If necessary, it also performs an impairment analysis according to IAS 36, *Impairment of Assets* ("IAS 36"), in which discounted future cash flows are calculated to ascertain whether the value of assets has become impaired. However, a risk exists whereby the assumptions utilized by management to calculate future cash flows may not be fair based on current conditions and those prevailing in the foreseeable future.

The audit procedures we applied to cover the risk of the impairment of long-lived assets include the following:

The application of internal control and substantive tests, in which we performed a detailed review of projected income and expenses and, on this basis, discounted future cash flows. We also verified, according to our knowledge of the business and historical audited information, the regularization of any nonrecurring effect, so as to avoid considering these effects in the projections. We evaluated the fairness of the discount rate utilized by management, for which purpose we requested support from our firm's experts. The results derived from the application of our audit tests were reasonable.

As discussed in Note 3j to the consolidated financial statements, the Entity has not identified impairment effects which, at December 31, 2017, might have required adjustments to the values of long-lived assets.

## Goodwill and Other Intangible Assets

Given the importance of the goodwill balance and continued economic uncertainty, when necessary, it is important to ensure that goodwill is adequately reviewed to identify potential impairment.

The determination as to whether the book value of goodwill is recoverable requires the Entity's management to make significant estimates regarding future cash flows, discount rates and growth based on its opinion regarding future business perspectives.

In our capacity as auditors, we have analyzed the assumptions utilized in the impairment model, specifically including cash flow projections, discount rates and long-term rate growth. The key assumptions used to estimate cash flows in the Entity's impairment tests are those related to the growth of revenues and the operating margin.

Our fair value valuation specialists assisted us by preparing an independent evaluation of the discount rates and methodology used to prepare the impairment testing model, together with the utilized market multiple estimates. We also tested the completeness and accuracy of the impairment model.

The results of our audit tests were reasonable and we agree that the utilized assumptions, including the discount rate and the goodwill impairment amount recorded for the year, are appropriate.

As discussed in Notes 31 and Note 16 to the consolidated financial statements, the Entity has identified impairment effects on La Vaca Argentina and Il Tempietto Brands as of December 31, 2017, which have required adjustments to the values of long-lived assets for an amount of \$3,270, and \$377, respectively.

#### **Noncontrolling Interest Purchase Option**

In October 2014, the Entity acquired Grupo Zena; as a result of this transaction, it is entitled to acquire the noncontrolling interest held by other investors four years after the acquisition date. In conformity with IAS 32, *Financial Instruments*, the current value of the estimated debt that will be settled when the purchase option is exercised according to contractual clauses must be recorded. The initial recognition of this debt must be applied to a supplementary capital account; each year, its revaluation affects the result of the year.

The audit procedures we applied to cover the risk derived from the noncontrolling interest purchase option included the following:

Review the determination of the current value of the estimated debt prepared by management; confirm that this amount is correctly recorded in accounting so as to recognize the revaluation of the financial liability, and review the disclosures included in Note 19 to the consolidated financial statements. The results of our audit rests were reasonable.

#### **Information Other Than the Consolidated Financial Statements and Auditors' Report**

Management is responsible for the other information, which is composed by the data forming part of the annual report, which includes the consolidated financial statements and our audit report.

Our opinion regarding the consolidated financial statements does not cover the other information and we do not give any assurance in this regard.

In relation to our audit of the consolidated financial statements, our responsibility involves reading the other information and considering whether it is materially inconsistent with the consolidated financial statements, the knowledge we obtained during the audit or whether it appears to contain material misstatement. If, based on the work we perform, we conclude that the other information contains material misstatement, we would have to report the situation. However, we have nothing to report in this regard.

#### **Other Matter**

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

#### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 ISA's, 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 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 Entity'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 Entity'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 Entity 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.
- Obtenemos evidencia suficiente y adecuada en relación con la información financiera de las entidades o actividades empresariales dentro de la Entidad para expresar una opinión sobre los estados financieros consolidados. Somos responsables de la dirección, supervisión y realización de la auditoría de la Entidad. Somos los únicos responsables de nuestra opinión de auditoría.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity 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 provided the Entity's corporate governance officers with a declaration to the effect that we have fulfilled applicable ethical requirements regarding our independence and have reported all the relations and other issues that could be reasonably be expected to affect our independence and, when applicable, the respective safeguards.

The issues we have reported to the Entity's governance officers include the matters that we consider to have the greatest significance for the audit of the consolidated financial statements of the current period and which, accordingly, are classified as key audit matters. We have described these matters in this audit report, unless legal or regulatory provisions prevent them from being disclosed or, under extremely infrequent circumstances, we conclude that a given matter should be excluded from our report because we can fairly expect that the resulting adverse consequences will exceed any possible benefits as regards the public interest.

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

**C.P.C. Juan Carlos Reynoso Degollado**  
**Mexico City, Mexico**  
**March 9, 2018**

Alsea, S.A.B. de C.V. and Subsidiaries  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

At December 31, 2017, 2016 and 2015

(Figures in thousands of Mexican pesos)

ASSETS	NOTES	2017	2016	2015
<b>Current assets</b>				
Cash and cash equivalents	6	\$ 1,540,403	\$ 2,547,842	\$ 1,195,814
Customers, net	7	920,264	708,380	639,943
Value-added tax and other recoverable taxes		358,222	363,120	205,453
Other accounts receivable		330,324	245,258	264,910
Inventories, net	8	2,009,779	1,575,363	1,377,981
Non-current assets classified as held for sale		87,236	-	-
Advance payments	9	411,563	402,190	322,386
Total current assets		5,657,791	5,842,153	4,006,487
<b>Long-term assets</b>				
Guarantee deposits		414,909	362,618	384,328
Investment in shares of associated companies	14	-	1,035,975	922,962
Store equipment, leasehold improvements and property, net	10	15,772,479	13,673,445	11,137,776
Intangible assets, net	11 and 16	15,358,006	15,215,336	14,691,004
Deferred income taxes	20	2,348,434	2,068,996	1,710,943
Total long-term assets		33,893,828	32,356,370	28,847,013
Total assets		\$ 39,551,619	\$ 38,198,523	\$ 32,853,500

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	2017	2016	2015
<b>Current liabilities</b>				
Current maturities of long-term debt	17	\$ 1,087,466	\$ 1,107,238	\$ 734,824
Current maturities of financial lease liabilities	12	6,799	6,799	7,190
Suppliers		3,960,806	3,901,972	3,013,091
Accounts payable and accrued liabilities		1,018,691	909,156	635,802
Accrued expenses and employee benefits		3,195,217	2,531,885	1,713,496
Put option of non-controlling interest	19	3,280,064	-	-
Income taxes		125,512	289,484	139,118
Taxes arising from tax consolidation	20	19,892	22,946	31,893
Total current liabilities		12,694,447	8,769,480	6,275,414
<b>Long-term liabilities</b>				
Long-term debt, not including current maturities	17	6,693,454	9,743,806	5,018,722
Non-current financial lease liabilities	12	294,644	300,835	307,140
Obligation under put option of non-controlling interest	19	-	3,185,096	2,777,328
Debt instruments	18	6,980,452	3,988,845	6,479,795
Other liabilities		122,711	67,524	73,272
Taxes arising from tax consolidation	20	-	18,846	39,755
Deferred income taxes	20	1,966,100	1,887,473	1,925,337
Employee retirement benefits	21	196,685	109,166	108,586
Total long-term liabilities		16,254,046	19,301,591	16,729,935
Total liabilities		28,948,493	28,071,071	23,005,349
<b>Stockholders' equity</b>				
Capital stock	23	475,869	476,599	478,203
Premium on share issue		8,625,720	8,625,720	8,613,587
Retained earnings		3,607,287	3,123,193	2,748,469
Reserve for repurchase of shares		260,384	320,231	517,629
Reserve for obligation under put option of non-controlling interest	19 and 23	(2,673,053)	(2,673,053)	(2,673,053)
Other comprehensive income items		(814,647)	(758,686)	(736,604)
Stockholders' equity attributable to the controlling interest		9,481,560	9,114,004	8,948,231
Non-controlling interest	24	1,121,566	1,013,448	899,920
Total stockholders' equity		10,603,126	10,127,452	9,848,151
Total liabilities and stockholders' equity		\$ 39,551,619	\$ 38,198,523	\$ 32,853,500

See accompanying notes to the consolidated financial statements.

Alsea, S.A.B. de C.V. and Subsidiaries  
**CONSOLIDATED STATEMENTS OF INCOME**  
For the years ended December 31, 2017, 2016 and 2015  
(Figures in thousands of Mexican pesos)

	NOTES	2017	2016	2015
<b>Continuing operations</b>				
Net sales	26	\$ 42,529,121	\$ 37,701,867	\$ 32,288,376
Cost of sales	27	12,923,189	11,779,630	10,149,276
Leases	12	4,031,877	3,274,251	2,851,083
Depreciation and amortization		2,751,675	2,388,235	1,947,897
Other operating costs and expenses	28	19,635,132	17,382,096	14,930,621
Other (income) expenses, net	29	(527,348)	110,651	55,666
Interest income		(44,925)	(37,060)	(30,512)
Interest expenses		1,307,406	881,643	710,901
Changes in the fair value of financial instruments	19	94,968	407,768	104,275
Exchange (gain) loss, net		269,133	(73,193)	74,202
		2,088,014	1,587,846	1,494,967
Equity in results of associated companies	14	(437)	67,877	27,703
Income before income taxes		2,087,577	1,655,723	1,522,670
Income tax expense	20	835,428	529,233	489,919
Consolidated net income from continuing operations		\$ 1,252,149	\$ 1,126,490	\$ 1,032,751
Net income for the year attributable to:				
Controlling interest		\$ 1,089,498	\$ 996,471	\$ 981,215
Non-controlling interest		\$ 162,651	\$ 130,019	\$ 51,536
<b>Earnings per share:</b>				
Basic and diluted net earnings per share from continuing (cents per share)	25	\$ 1.31	\$ 1.19	\$ 1.17
Basic and diluted net earnings per share from continuing operations (cents per share)	25	\$ 1.31	\$ 1.19	\$ 1.17

See accompanying notes to the consolidated financial statements.

Alsea, S.A.B. de C.V. and Subsidiaries  
**CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME**  
For the years ended December 31, 2017, 2016 and 2015  
(Figures in thousands of Mexican pesos)

	2017	2016	2015
Consolidated net income	\$ 1,252,149	\$ 1,126,490	\$ 1,032,751
Items that may be reclassified subsequently to income:			
Valuation of financial instruments, net of income taxes	(29,243)	(94,821)	(80,460)
Remeasurement of defined benefit obligation, net of income taxes	(64,213)	-	-
Cumulative translation adjustment, net of income taxes	37,495	72,739	(276,566)
	(55,961)	(22,082)	(357,026)
Total comprehensive income, net of income taxes	\$ 1,196,188	\$ 1,104,408	\$ 675,725
Comprehensive income for the year attributable to:			
Controlling interest	\$ 1,033,537	\$ 974,389	\$ 624,189
Non-controlling interest	\$ 162,651	\$ 130,019	\$ 51,536

See accompanying notes to the consolidated financial statements.

Alsea, S.A.B. de C.V. and Subsidiaries  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
For the years ended December 31, 2017, 2016 and 2015  
(Figures in thousands of Mexican pesos)

	Contributed capital			Retained earnings	
	Capital stock	Premium on issuance of share	Repurchased shares	Reserve for repurchase of shares	Reserve for obligation under put option of non-controlling interest
<b>Balances at January 1, 2015</b>	\$ 478,749	\$ 8,613,587	\$ (478)	\$ 531,406	\$ (2,673,053)
Repurchase of shares (Note 23a)	-	-	(965)	(93,422)	-
Sales of shares (Note 23a)	-	-	897	79,645	-
Dividend paid (Note 23a)	-	-	-	-	-
Business acquisitions and obligation under put option of non-controlling	-	-	-	-	-
Other movements	-	-	-	-	-
Comprehensive income	-	-	-	-	-
<b>Balances at December 31, 2015</b>	478,749	8,613,587	(546)	517,629	(2,673,053)
Repurchase of shares (Note 23a)	-	-	(1,995)	(248,503)	-
Sales of shares (Note 23a)	-	12,133	391	51,105	-
Dividend paid (Note 23a)	-	-	-	-	-
Effect of acquisition of business in associated entity	-	-	-	-	-
Business acquisitions and obligation under put option of non-controlling	-	-	-	-	-
Other movements	-	-	-	-	-
Comprehensive income	-	-	-	-	-
<b>Balances at December 31, 2016</b>	478,749	8,625,720	(2,150)	320,231	(2,673,053)
Repurchase of shares (Note 23a)	-	-	(2,880)	(338,644)	-
Sales of shares (Note 23a)	-	-	2,150	278,797	-
Dividend paid (Note 23a)	-	-	-	-	-
Other movements	-	-	-	-	-
Comprehensive income	-	-	-	-	-
<b>Balances at December 31, 2017</b>	\$ 478,749	\$ 8,625,720	\$ (2,880)	\$ 260,384	\$ (2,673,053)

	Other comprehensive income items							
	Legal reserve	Retained earnings	Valuation of financial instruments	Cumulative translation adjustment	Remeasurement of defined benefit obligation	Total controlling interest	Non-controlling interest	Total stockholders' equity
	\$ 100,736	\$ 2,086,591	\$ (7,242)	\$ (372,336)	\$ -	\$ 8,757,960	\$ 833,213	\$ 9,591,173
	-	-	-	-	-	(94,387)	-	(94,387)
	-	-	-	-	-	80,542	-	80,542
	-	(419,173)	-	-	-	(419,173)	-	(419,173)
	-	(900)	-	-	-	(900)	5,015	4,115
	-	-	-	-	-	-	10,156	10,156
	-	981,215	(80,460)	(276,566)	-	624,189	51,536	675,725
	100,736	2,647,733	(87,702)	(648,902)	-	8,948,231	899,920	9,848,151
	-	-	-	-	-	(250,498)	-	(250,498)
	-	-	-	-	-	63,629	-	63,629
	-	(644,771)	-	-	-	(644,771)	(45,178)	(689,949)
	-	57,888	-	-	-	57,888	-	57,888
	-	(34,761)	-	-	-	(34,761)	-	(34,761)
	-	(103)	-	-	-	(103)	28,687	28,584
	-	996,471	(94,821)	72,739	-	974,389	130,019	1,104,408
	100,736	3,022,457	(182,523)	(576,163)	-	9,114,004	1,013,448	10,127,452
	-	-	-	-	-	(341,524)	-	(341,524)
	-	-	-	-	-	280,947	-	280,947
	-	(567,763)	-	-	-	(567,763)	(159,616)	(727,379)
	-	(37,641)	-	-	-	(37,641)	105,083	67,442
	-	1,089,498	(29,243)	37,495	(64,213)	1,033,537	162,651	1,196,188
	\$ 100,736	\$ 3,506,551	\$ (211,766)	\$ (538,668)	\$ (64,213)	\$ 9,481,560	\$ 1,121,566	\$ 10,603,126

See accompanying notes to the consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended December 31, 2017, 2016 and 2015

(Figures in thousands of Mexican pesos)

	NOTE	2017	2016	2015
<b>Cash flows from operating activities:</b>				
Consolidated net income		\$ 1,252,149	\$ 1,126,490	\$ 1,032,751
Adjustment for:				
Income taxes		835,428	529,233	489,919
Equity in results of associated companies		437	(67,877)	(27,703)
Interest expense		1,307,406	881,643	710,901
Interest income		(44,925)	(37,060)	(30,512)
Disposal of store equipment, leasehold improvements and property		181,099	14,490	162,734
Impairment goodwill	16	3,647	-	-
Gain on disposal of investment of associated - Grupo Axo	29	(608,817)	-	-
Changes in the fair value of financial instruments		94,968	407,768	104,275
Depreciation and amortization	10 and 11	2,751,675	2,388,235	1,947,897
		5,773,067	5,242,922	4,390,262
Changes in working capital:				
Customers		(211,884)	(16,072)	18,847
Other accounts receivable		(85,066)	24,027	(48,207)
Inventories		(434,416)	(145,375)	(352,815)
Advance payments		(61,664)	(38,902)	3,932
Suppliers		58,834	696,528	344,836
Accrued expenses and employee benefits		257,998	984,024	285,807
Income taxes paid		(731,587)	(967,746)	(818,934)
Other liabilities		46,794	(55,514)	(93,336)
Labor obligations		23,306	580	6,041
Net cash flows provided by operating activities		4,635,382	5,724,472	3,736,433
<b>Cash flows from investing activities:</b>				
Interest collected		44,925	37,060	30,512
Store equipment, leasehold improvements and property	10	(4,695,671)	(4,048,244)	(2,984,818)
Intangible assets	11	(511,716)	(550,998)	(411,472)
Disposal of investment of associated - Grupo Axo		1,607,410	-	-
Acquisitions of business, net of cash acquired	1 y 15	-	(293,027)	-
Net cash flows used in investing activities		(3,555,052)	(4,855,209)	(3,365,778)

	NOTE	2017	2016	2015
<b>Cash flows from financing activities:</b>				
Bank loans		1,160,197	5,820,156	4,272,000
Repayments of loans		(4,230,321)	(1,036,032)	(7,389,420)
Issuance of debt instruments	1 and 18	3,000,000	-	4,000,000
Payments for debt instruments		-	(2,500,000)	-
Interest paid		(1,307,406)	(881,643)	(710,901)
Dividends paid		(727,379)	(689,949)	(419,173)
Payments for financial leasing		(6,191)	(128,767)	(7,890)
Acquisition of non-controlling interest		-	-	(27,265)
Repurchase of shares		(341,524)	(250,498)	(94,387)
Sales of shares		280,947	63,629	80,542
Net cash flows (used in) provided by financing activities		(2,171,677)	396,896	(296,494)
Net (decrease) increase in cash and cash equivalents		(1,091,347)	1,266,159	74,161
Exchange effects on value of cash		83,908	85,869	8,803
Cash and cash equivalents:				
At the beginning of the year		2,547,842	1,195,814	1,112,850
At end of year		\$ 1,540,403	\$ 2,547,842	\$ 1,195,814

See accompanying notes to the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017, 2016 and 2015

(Figures in thousands of Mexican pesos)

### 1. ACTIVITY, MAIN OPERATIONS AND SIGNIFICANT EVENTS

#### Operations

Alsea, S.A.B. de C.V. and Subsidiaries (Alsea or the Entity) was incorporated as a variable income stock company on May 16, 1997 in Mexico. The Entity's domicile is Av. Revolución 1267 Int. 20 and 21, Col. Alpes, Delegación Álvaro Obregón, C.P. 01040, Mexico City, Mexico.

The Entity was incorporated for a period of 99 years, beginning on the date in which the deed was signed, which was April 7, 1997.

For disclosure purposes in the notes to the consolidated financial statements, reference made to pesos, "\$" or MXP is for thousands of Mexican pesos, and reference made to dollars is for US dollars.

Alsea is mainly engaged in operating fast food restaurants "QSR" cafes and casual dining "Casual Dining". The Brands operated in Mexico are Domino's Pizza, Starbucks, Burger King, Chili's Grill & Bar, California Pizza Kitchen, P.F. Chang's, Italianni's, The Cheese Cake Factory, Vips, La Finca and El Portón. In order to operate its multi-units, the Entity has the support of its shared service center, which includes the supply chain through Distribuidora e Importadora Alsea, S.A. de C.V. (DIA), real property and development services, as well as administrative services (financial, human resources and technology). The Entity operates the Burger King, P.F. Chang's, Chili's Grill & Bar and Starbucks Brands in Chile. In Argentina, Alsea operates the Burger King, P.F. Chang's and Starbucks Brands. In Colombia, Alsea operates the Domino's Pizza, Burger King, Starbucks, P.F. Chang's Brands and from 2016 it operates the Archie's brand. Starting in 2015, the P.F. Chang's brand operates in Brazil. And starting October 2014, Alsea operates in Spain the Brands Foster's Hollywood, Cañas y Tapas, Il Tempietto, La Vaca Argentina, Burger King and Domino's Pizza.

#### Significant events

**a. Disposal of investment of associated - Grupo Axo** - On May 30, 2017, Alsea signed an agreement with General Atlantic for the sale of the total of non-controlling interest of stockholder's equity of Grupo Axo, S.A.P.I. de C.V. (Grupo Axo) which was acquired in June 2013, the purchase also includes the non-controlling interest of the subsidiaries of Grupo Axo in Chile (Blue Stripes Chile, SPA and Stripes Chile SPA).

On October 19, 2017, Alsea concluded the process of selling of the total of its investment in the capital stock of Grupo Axo and Axo Group subsidiaries in Chile, both transactions totaled \$1,607 million; the resources obtained were used for the advance payment of debt and/or other growth projects.

- b. Placement of debt instruments** - On October 4, 2017, Alsea concluded the placement of debt instruments worth \$1,000,000, maturing in October 2022, and bearing interest at the 28-day TIIE rate (Mexican Interbank Offering rate) plus 0.90 percentage points; and other the placement of debt instrument worth \$2,000,000, maturing in October 2027, bearing interest at a fixed rate of 8.85%; this placement received a rating of "A+" for local currency debt by Fitch Rating & "AA-" by HR Ratings.
- c. Signing of Starbucks Development Contract in Uruguay** - On June 26, 2017, Alsea signed the development agreement with Starbucks Coffee International, Inc. to exclusively operate and develop Starbucks brand establishments in Uruguay. This agreement represents the expansion of Alsea in a new South American market, beginning operations in early 2018.
- d. Refinancing and pre-payment of debt certificates** - On September 8, 2016, Alsea successfully concluded the refinancing of debt with costs in the amount of \$2,500,000 and \$10,383 of accrued interest. As part of this transaction Alsea obtained two bilateral loans with Bank of America, N.A. and Grupo Financiero Santander Mexico within five years for a total of \$2,684,000, resources to pay in advance the \$2,500,000 of the debt instruments issued in June 2013 maturing in June 2018, and the remaining \$173,617 was used to capital investment purposes as part of the store expansion program of the different Brands of the Entity's portfolio.
- e. Acquisition of Sub-franchisee assets of Domino's Pizza Mexico** - On September 2, 2016, Alsea concluded the acquisition of 100% of the assets of 22 Domino's Pizza stores from a sub-franchisee who prior to this acquisition had exclusive rights to develop and operate the brand in certain areas of the State of Mexico, within the metropolitan area of Mexico City and the State of Hidalgo. This purchase consisted of the acquisition of all the assets of the 22 units, as well as the rights and obligations that derive from the sub-franchise agreements for the operation of said establishments.
- f. Signing of Chili's Grill & Bar Development Contract in Chile** - On June 7, 2016, Alsea signed an exclusive development agreement to operate and develop Chili's Grill & Bar restaurants in Chile. With this new development contract, Alsea agrees to have a minimum of 15 Chili's restaurants operating in the Andean country over a period of 10 years.

**g. Acquisition of Archie's, S.A.S. In Colombia** -On March 3, 2016, Alsea was the winner of the asset divestment process of the Italian restaurant chain Archie's Colombia, S.A.S. (Archie's), Archie's is a 100% Colombian concept that has grown and developed its format to the measure of the national market; the business was founded in 1993 and is the largest restaurant chain of Italian food in Colombia and one of the main chains of that country. Archie's currently operates 41 restaurants in 7 of the main cities of Colombia, and has presence in the main shopping centers of the country.

**h. Placement of debt instruments** - In March 2015, Alsea concluded the placement of debt instruments worth \$3,000,000, maturing in March 2020, and bear interest at the 28-day TIE rate (Mexican Interbank Offering rate) plus 1.10 percentage points; and other the placement of debt instrument worth \$1,000,000, maturing in March 2025, bearing interest at a fixed rate of 8.07%; this placement received a rating of "A+" for local currency debt by Fitch Rating & HR Ratings.

**i. Acquisition of the non-controlling interest of Grupo Amigos de San Angel** - In July 2015, Alsea completed the acquisition of the remaining 10.23% of Grupo Amigos de San Angel S.A. de C.V. (GASA); the company owns 29 Italianni's units. Since February 2012, Alsea maintained 89.77% of the shares of GASA. (See effects in Note 24b).

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

### a. Application of new and revised International Financing Reporting Standards ("IFRSs" or "IAS") and interpretations that are mandatorily effective for the current year

In the current year, the Entity has applied a number of amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2017.

#### Amendments to IAS 7, Disclosure Initiative

The Entity has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Entity's liabilities arising from financing activities consist of borrowings (note 17) and debt instruments (note 18). Consistent with the transition provisions of the amendments, the Entity has not disclosed comparative information for the prior period, the application of these amendments has had no impact on the Entity's consolidated financial statements.

#### Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealized Losses

The Entity has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.

The application of these amendments has had no impact on the Entity's consolidated financial statements as the Entity already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

#### Annual Improvements to IFRSs 2014-2016 Cycle

The Entity has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Entity (see note 2b).

IFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Entity's consolidated financial statements as none of the Entity's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

### b. New and revised IFRSs in issue but not yet effective

The Entity has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments <sup>1</sup>
IFRS 15	Revenue from Contracts with Customers <sup>1</sup>
IFRS 16	Leases <sup>2</sup>
Amendments to IFRS 2	Classification and measurement of share-based payments <sup>1</sup>
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle <sup>1 and 2</sup>
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015-2017 Cycle <sup>2</sup>
IFRIC 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>

1 Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

2 Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

### IFRS 9, Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and in November 2014 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IFRS 9, *Financial Instruments*, are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in consolidated net income.
- With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in the consolidated statements of income. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in the consolidated statements of income.
- Previously, in accordance with IAS 39, the full amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in the consolidated statement of income.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Entity is in the process of concluding its analysis of financial assets and financial liabilities as of December 31, 2017. Apart from the above, it is not practicable to provide the estimated impact of the adoption of IFRS 9 on the Entity's consolidated financial statements.

### IFRS 15, Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11, Construction Contracts, and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Entity recognizes revenue from the following major sources:

- Sale of goods and beverages are recognized when they are delivered to and/or consumed by customers.
- Provision of services are recognized given the stage of completion, which is generally when the services have been rendered and accepted by customers.
- Dividends is recognized when the Entity's right to collect dividends has been established.
- Royalties is recorded as it is earned, based on a fixed percentage of sub-franchise sales.

Apart from providing more extensive disclosures on the Entity's revenue transactions, the directors do not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Entity.

#### **IFRS 16, Leases**

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 was issued in January 2017 and will supersede the current lease guidance including IAS 17, *Leases*, and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. "Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payment as well as the impact of lease modifications, among the others.

Furthermore, the classification of cash flows will also affect operating lease payments under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model, the lease payments will be split into a principal and interest portion which will be presented as financing and operating cash flows respectively.

However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis).

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated.

The Entity is in the process of determining the potential impacts that will derive from the adoption of this standard in its consolidated financial statements, although given the nature of its operations it would expect significant impacts.

#### **Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions**

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
  - (i) The original liability is derecognized;
  - (ii) The equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
  - (iii) Any difference between the carrying amount of the liability at the modification date and the amount recognized in equity should be recognized in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply. The directors of the Entity do not anticipate that the application of the amendments in the future will have a significant impact on the Entity's consolidated financial statements as the Entity does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

#### **Annual Improvements to IFRSs 2014 - 2016 Cycle**

The Annual Improvements include amendments to IFRS 1, IFRS 9 and IAS 28 which are not yet mandatorily effective for the Entity. The package also includes amendments to IFRS 12 which is mandatorily effective for the Entity in the current year - see note 2.as for details of application.

The amendments to IAS 28 are two, the first one clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

The second amendment to IAS 28 in long term interest in associates and joint ventures clarifies that an entity applies IFRS 9 Financial Instruments to long term interest in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments apply retrospectively with earlier application permitted.

Prepayment features with negative compensation amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

Amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018. The directors of the Entity do not anticipate that the application of the amendments in the future will have any impact on the Entity consolidated financial statements as the Entity is neither a first-time adopter of IFRS nor a venture capital organization. Furthermore, the Entity does not have any associate or joint venture that is an investment entity.

Amendments to IFRS 9 and IAS 28 (long-term interest in associates and joint ventures) are effective for annual periods beginning on or after 1 January 2019. The Entity is in the process of determining the potential impacts that will derive from the adoption of these amendments in its consolidated financial statements, although given the nature of its operations it would not expect significant impacts.

#### **Annual Improvements to IFRSs 2015 - 2017 Cycle**

The Annual Improvements include amendments to IFRS 3 and IFRS 11, IAS 12 and IAS 23.

Amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interest in that business. The amendments to IFRS 11 clarify that when an entity obtains control of a business that is not a joint operation the entity does not remeasure previously held interest in that business.

Amendments to IAS 12 clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regarding of how the tax arises.

Amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization on general borrowings.

#### **IFRIC 22, Foreign Currency Transactions and Advance Consideration**

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The directors of the Entity do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements. This is because the Entity already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards released by IASB.

#### b. Basis of preparation

The Entity's consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are valued at fair value, as explained in further detail within the significant accounting policies.

##### i. Historical cost

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

##### ii. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

#### c. Basis of consolidation of financial statements

The consolidated financial statements incorporate the financial statements of the Entity and entities controlled by the Entity and its subsidiaries. Control is obtained when the Entity:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Entity has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Entity considers all relevant facts and circumstances in assessing whether or not the Entity's voting rights in an investee are sufficient to give it power, including:

- The size of the Entity's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Entity, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Entity obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of income and other comprehensive income from the date the Entity gains control until the date when the Entity ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Entity and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Entity's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Entity are eliminated in full on consolidation.

Changes in the Entity's ownership interests in existing subsidiaries

Changes in the Entity's ownership interests in subsidiaries that do not result in the Entity losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Entity.

When the Entity loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Entity had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

#### **d. Financial instruments**

Financial assets and financial liabilities are recognized when the Entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of financial assets and financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets and financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

#### **e. Financial assets**

Financial assets are classified into the following specific categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "available-for-sale" (AFS) and financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular purchases or sales of financial assets are recognized and derecognized on the trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

##### **1. Effective interest method**

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as of FVTPL.

##### **2. Financial assets at FVTPL**

Financial assets are classified as of FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as of FVTPL

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as of FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as of FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other income and expenses" in the consolidated statements of income.

### 3. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded on an active market are classified as loans and receivables. Loans and receivables are valued at amortized cost using the effective interest method, less impairment identified.

Interest income is recognized by applying the effective interest rate, except for short term receivables when the effect of discounting is immaterial.

### 4. Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually.

Objective evidence of impairment for a portfolio of receivables could include the Entity's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 15 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

5. Derecognition of financial assets

The Entity derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Entity recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Entity continues to recognize the financial asset and also recognizes a collateralize borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Entity retains an option to repurchase part of a transferred asset), the Entity allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer.

The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

**f. Inventories and cost of sales**

Inventories are valued at the lower of cost or net realizable value. Costs of inventories are determined using the average cost method. Net realizable value represents the estimated selling price for inventories less all estimated cost of completion and costs necessary to make the sale.

Cost of sales represents the cost of inventories at the time of sale, increased, when applicable, by reductions in the value of inventory during the year to its net realizable value.

The Entity records the necessary estimations to recognize reductions in the value of its inventories due to impairment, obsolescence, slow movement and other causes that indicate that utilization or realization of the items comprising the inventories will be below the recorded value.

**g. Store equipment, leasehold improvements and property**

Store equipment, leasehold improvements and property are recorded at acquisition cost.

Depreciation of store equipment, leasehold improvements and property is calculated by the straight line method, based on the useful lives estimated by the Entity's management. Annual depreciation rates of the main groups of assets are as follows:

	Rates
Buildings	5
Store equipment	5 to 30
Leasehold improvements	7 to 20
Transportation equipment	25
Computer equipment	30
Production equipment	10 to 20
Office furniture and equipment	10

Any significant components of store equipment, leasehold improvements and property that must be replaced periodically are depreciated as separate components of the asset and to the extent they are not fully depreciated at the time of their replacement, are written off by the Entity and replaced by the new component, considering its respective useful life and depreciation. Likewise, when major maintenance is performed, the cost is recognized as a replacement of a component provided that all recognition requirements are met. All other routine repair and maintenance costs are recorded as an expense in the period as they are incurred.

Buildings, furniture and equipment held under finance leases are depreciated based on their estimated useful life as own assets. However, when there is no reasonable certainty that the property is obtained at the end of the lease term, the assets are depreciated over the shorter of the lease life and life period.

The Entity does not maintain a policy of selling fixed assets at the end of their useful lives. Instead, in order to protect its image and the Alsea Brands, those assets are destroyed or in some cases sold as scrap.

The use or lease of equipment outside the provisions of the franchise agreements is subject to sanctions. Additionally, given the high costs of maintenance or storage required, those assets are not used as spare parts for other brand stores.

#### h. Advance payments

Advance payments include advances for purchase of inventories, leasehold improvements and services that are received in the twelve months subsequent to the date of the consolidated statements of financial position and are incurred in the course of regular operations.

#### i. Intangible assets

##### 1. Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Brands owned by Alsea included under intangibles assets are the following:

BRAND	COUNTRY	
Archie's	Colombia	Own brand
Foster's Hollywood	Spain	Own brand
Cañas y Tapas	Spain	Own brand
La Vaca Argentina	Spain	Own brand
Il Tempietto	Spain	Own brand
Vips	Mexico	Own brand
El Portón	Mexico	Own brand
La Finca	Mexico	Own brand

##### 2. Intangible assets acquired separately

Other intangible assets represent payments made to third parties for the rights to use the Brands with which the Entity operates its establishments under the respective franchise or association agreements. Amortization is calculated by the straight line method based on the use period of each brand, including renewals considered to be certain, which are generally for 10 to 20 years. The terms of brand rights are as follows:

BRANDS	COUNTRY	YEAR OF EXPIRATION
Domino's Pizza	Mexico	2025
	Colombia	2026
	Spain <sup>(3)</sup>	2019
Starbucks Coffee	Mexico	2037
	Argentina	2027
	Colombia	2033
	Chile	2027
Burger King	Mexico, Argentina, Chile, Colombia and Spain <sup>(3)</sup>	Depending on opening dates
Chili's Grill & Bar	Mexico	2018
	Colombia	2026
	Chile	2016
California Pizza Kitchen	Mexico	2022
P.F. Chang's	Mexico <sup>(2)</sup>	2019
	Argentina, Chile, Brazil and Colombia <sup>(2)</sup>	2021
The Cheesecake Factory	Mexico and Chile <sup>(2)</sup>	Depending on opening dates
Italianni's	Mexico <sup>(1)</sup>	2031

(1) The term for each store under this brand is 20 years as of the opening date, with the right to a 10 year extension.

(2) The term for each store under this brand is 10 years as of the opening date, with the right to a 10 year extension.

(3) Term of 10 years with the right to an extension.

Domino's Pizza Spain renewed its contract in 2018, Burger King Spain is valid for 20 years.

The Entity has affirmative and negative covenants under the aforementioned agreements, the most important of which are carrying out capital investments and opening establishments. At December 31, 2017, 2016 and 2015, the Entity has fully complied with those obligations.

Amortization of intangible assets is included in the depreciation and amortization accounts in the consolidated statements of income.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss when the asset is derecognized.

**j. Impairment in the value of long-lived assets, equipment, leasehold improvements, properties, and other intangible assets**

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. The Entity performs impairment test annually to identify any indication.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**k. Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Entity, liabilities incurred by the Entity to the former owners of the acquire and the equity interests issued by the Entity in exchange for control of the acquire. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, *Income Taxes*, and IAS 19, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquire or share-based payment arrangements of the Entity entered into to replace share-based payment arrangements of the acquire are measured in accordance with IFRS 2, *Share-based Payments*, at the acquisition date;
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquire, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquirer's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Entity in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Entity's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

#### **1. Goodwill**

Goodwill arising from an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Entity's cash-generating units that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods. At December 31, 2017, the Entity has identified impairment effects on its La Vaca Argentina and Il Tempietto Brands for an amount of \$3,270, and \$377, respectively.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### **m. Investment in shares of associated companies and joint venture**

An associate is an entity over which the Entity has significant influence. Significant influence is the power to participate in the financial and operating policies decisions of the investee, but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statements of financial position at cost and adjusted thereafter to recognize the Entity's share of the profit or loss and other comprehensive income of the associate or joint venture.

When the Entity's share of losses of an associate or a joint venture exceeds the Entity's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Entity's net investment in the associate or joint venture), the Entity discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Entity's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Entity's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Entity's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36, *Impairment of Assets*, as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Entity discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Entity retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Entity measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39.

The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture.

In addition, the Entity accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Entity continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Entity reduces its ownership interest in an associate or a joint venture but the Entity continues to use the equity method, the Entity reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Entity, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Entity's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Entity.

#### **n. Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Entity at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Lessors of leased properties require deposits equivalent guarantee of 1 to 2 months' rent. The deposits are classified as noncurrent.

#### **o. Foreign currency transactions**

In order to consolidate the financial statements of foreign operations carried out independently from the Entity (located in Argentina, Chile, Colombia, Brazil and Spain), which comprise 44%, 42% and 38% of consolidated net income and 31%, 25% and 22% of the total consolidated assets at December 31, 2017, 2016 and 2015, respectively, companies apply the policies followed by the Entity.

The financial statements of consolidating foreign operations are converted to the reporting currency by initially identifying whether or not the functional and recording currency of foreign operations is different, and subsequently converting the functional currency to the reporting currency. The functional currency is equal to recording currency of foreign operations, but different to the reporting currency.

In order to convert the financial statements of subsidiaries resident abroad from the functional currency to the reporting currency at the reporting date, the following steps are carried out:

- Assets and liabilities, both monetary and non-monetary, are converted at the closing exchange rates in effect at the reporting date of each consolidated statements of financial position.
- Income, cost and expense items of the consolidated statements of income are converted at the average exchange rates for the period, unless those exchange rates will fluctuate significantly over the year, in which case operations are converted at the exchange rates prevailing at the date on which the related operations were carried out.
- All conversion differences are recognized as a separate component under stockholders' equity and form part of other comprehensive income items.

**p. Employee benefits**

Retirement benefits costs from termination benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur.

Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

Short-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Statutory employee profit sharing (PTU)

As result of the PTU is recorded in the results of the year in which it is incurred and is presented in other expenses and other income.

As result of the 2014 Income Tax Law, as of December 31, 2017, 2016 and 2015, PTU is determined based on taxable income, according to Section I of Article 9 of the that Law.

**q. Income taxes**

The income tax expense represents the sum of the tax currently payable and deferred tax.

1. Current tax

Current income tax (ISR) is recognized in the results of the year in which is incurred.

2. Deferred income tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**r. Provisions**

Provisions are recorded when the Entity has a present obligation (be it legal or assumed) as a result of a past event, and it is probable that the Entity will have to settle the obligation and it is possible to prepare a reliable estimation of the total amount.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flow.

When some or all of the economic benefits required to settle a provision are expected to be recovered by a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. Provisions are classified as current or non-current based on the estimated period of time estimated for settling the related obligations.

Contingent liabilities acquired as part of a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with IAS 37 and the amount initially recognized less cumulative amortization recognized in accordance with IAS 18, *Revenue*.

**s. Financial liabilities and equity instruments**

1. Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2. Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

3. Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

4. Derecognition of financial liabilities

The Entity derecognizes financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

**t. Derivative financial instruments**

Alsea uses derivative financial instruments (DFI) known as forwards or swaps, in order to a) mitigate present and future risks of adverse fluctuations in exchange and interest rates, b) avoid distracting resources from its operations and the expansion plan, and c) have certainty over its future cash flows, which also helps to maintain a cost of debt strategy. DFI's used are only held for economic hedge purposes, through which the Entity agrees to the trade cash flows at future fixed dates, at the nominal or reference value, and they are valued at fair value.

**Embedded derivatives:** The Entity reviews all signed contracts to identify the existence of embedded derivatives. Identified embedded derivatives are subject to evaluation to determine whether or not they comply with the provisions of the applicable regulations; if so, they are separated from the host contract and are valued at fair value. If an embedded derivative is classified as trading instruments, changes in their fair value are recognized in income for the period.

Changes in the fair value of embedded derivatives designated for hedging recognize in based on the type of hedging: (1) when they relate to fair value hedges, fluctuations in the embedded derivative and in the hedged item they are valued at fair value and are recorded in income; (2) when they relate to cash flows hedges, the effective portion of the embedded derivative is temporarily recorded under other comprehensive income, and it is recycled to income when the hedged item affects results. The ineffective portion is immediately recorded in income.

**Strategy for contracting DFI's:** Every month, the Corporate Finance Director's office must define the price levels at which the Corporate Treasury must operate the different hedging instruments. Under no circumstances should amounts above the monthly resource requirements be operated, thus ensuring that operations are always carried out for hedging and not for speculation purposes. Given the variety of derivative instruments available to hedge risks, Management is empowered to define the operations for which such instruments are to be contracted, provided they are held for hedging and not for speculative purposes.

**Processes and authorization levels:** The Corporate Treasury Manager must quantify and report to the Financial Director the monthly requirements of operating resources. The Corporate Financial Director may operate at his discretion up to 50% of the needs for the resources being hedged, and the Administration and Financial Management may cover up to 75% of the exposure risk. Under no circumstances may amounts above the limits authorized by the Entity's General Management be operated, in order to ensure that operations are always for hedging and not for speculation purposes. The foregoing is applicable to interest rates with respect to the amount of debt contracted at variable rates and the exchange rate with respect to currency requirements. If it becomes necessary to sell positions for the purpose of making a profit and/or incurring a "stop loss", the Administration and Finance Director must first authorize the operation.

**Internal control processes:** EWith the assistance of the Corporate Treasury Manager, the Corporate Financial Director must issue a report the following working day, specifying the Entity's resource requirements for the period and the percentage covered by the Administration and Financial Manager. Every month, the Corporate Treasury Manager will provide the Accounting department with the necessary documentation to properly record such operations. The Administration and Finance Director will submit to the Corporate Practices Committee a quarterly report on the balance of positions taken.

The actions to be taken in the event that the identified risks associated with exchange rate and interest rate fluctuations materialize, are to be carried out by the Internal Risk Management and Investment Committee, of which the Alsea General Director and the main Entity's directors form part.

**Main terms and conditions of the agreements:** Operations with DFI's are carried out under a master agreement on an ISDA (International Swap Dealers Association) form, which must be standardized and duly formalized by the legal representatives of the Entity and the financial institutions.

**Margins, collateral and credit line policies:** In certain cases, the Entity and the financial institutions have signed an agreement enclosed to the ISDA master agreement, which stipulates conditions that require them to offer guarantees for margin calls in the event that the mark-to-market value exceeds certain established credit limits.

The Entity has the policy of monitoring the volume of operations contracted with each institution, in order to avoid as much as possible margin calls and diversify its counterparty risks.

Identified risks are those related to variations in exchange rate and interest rate. Derivative instruments are contracted under the Entity's policies and no risks are expected to occur that differ from the purpose for which those instruments are contracted.

**Markets and counterparties:** Derivative financial instruments are contracted in the local market under the over the counter (OTC) mode. Following are the financial entities that are eligible to close operations in relation to the Entity's risk management: BBVA Bancomer S.A., Banco Santander, S. A., Barclays Bank México S. A., UBS AG Actinver Casa De Bolsa, Banorte-Ixe, BTG Pactual, Citi, Credit Suisse, Grupo Bursátil Mexicano GBM Casa De Bolsa, HSBC Global Research, Interacciones Casa de Bolsa, Intercam Casa de Bolsa, Invex, Itau BBA, Monex Casa de Bolsa, UBS Investment Research, Grupo Financiero BX+, and Vector Casa de Bolsa.

The Corporate Financial Director is empowered to select other participants, provided that they are regulated institutions authorized to carry out this type of operations, and that they can offer the guarantees required by the Entity.

**Hedge accounting:** DFI's are initially recorded at their fair value, which is represented by the transaction cost. After initial recognition, DFI's are valued at each reporting period at their fair value and changes in such value are recognized in the consolidated statements of income, except if those derivative instruments have been formally designated as and they meet the requirements to be considered hedge instruments associated to a hedge relation.

**Polices for designating calculation and valuation agents:** The fair value of DFIs is reviewed monthly. The calculation or valuation agent used is the same counterparty or financial entity with whom the instrument is contracted, who is asked to issue the respective reports at the month-end closing dates specified by the Entity.

Likewise, as established in the master agreements (ISDA) that cover derivative financial operations, the respective calculations and valuations are presented in the quarterly report. The designated calculation agents are the corresponding counterparties. Nevertheless, the Entity validates all calculations and valuations received by each counterparty.

#### **u. Revenue recognition**

Income generated from ordinary operations is recorded to the extent that future economic benefits are likely to flow into the Entity and income can be measured reliably, irrespective of the moment in which payment is made. Income is measured based on the fair value of the consideration received or receivable, bearing in mind the payment conditions specified in the respective agreement, without including taxes or tariffs.

##### **Sale of goods**

**Revenues from the sale of food and beverages are recognized when they are delivered to and/or consumed by customers.**

##### **Provision of services**

**Revenues from services are recognized given the stage of completion, which is generally when the services have been rendered and accepted by customers.**

##### **Dividends**

**Dividend income is recognized when the Entity's right to collect dividends has been established.**

##### **Royalties**

**Royalty income is recorded as it is earned, based on a fixed percentage of sub-franchise sales.**

#### **4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES FOR ESTIMATING UNCERTAINTIES**

In the application of the Entity's accounting policies, which are described in Note 3, the Entity's management is required to make certain judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Estimations and assumptions are reviewed on a regular basis. Changes to the accounting estimations are recognized in the period in which changes are made, or in future periods if the changes affect the current period and other subsequent periods.

##### **a. Critical judgments for applying the accounting policies**

There are critical judgments, apart from those involving estimations, that the Entity's management has made in the process of applying the Entity's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

##### **Control over Food Service Project, S.L. (Grupo Zena) and obligation under put option of non-controlling interest**

Note 15 indicates that Grupo Zena is a 71.76% owned subsidiary of Alsea. Based on the contractual agreements executed between the Entity and other investors, Alsea is empowered to appoint or remove the majority of the members of the board of directors, executive commission and management positions of Grupo Zena, which manage the relevant activities of Grupo Zena. Consequently, the Entity's management concluded that Alsea has the capacity to manage the relevant activities of Grupo Zena and therefore has control over it.

Similarly, Alsea has the obligation under the put option to acquire the non-controlling interest of the other investors (purchase option). This purchase option can be exercised four years after the acquisition date of Grupo Zena.

Alsea's management has calculated the financial liability derived from the contractual requirements in effect at the purchase option date, as well as the current value of the financial liability according to the requirements of IAS 32. Details of this liability can be consulted in Note 19.

##### **Control over Operadora de Franquicias Alsea, S.A. de C.V. (OFA)**

Based on the contractual agreements signed by the Entity and other investors, the Entity is empowered to appoint and remove most of the members of the board of directors of OFA, which has the power to control the relevant operations of OFA. Therefore, the Entity's management concluded that the Entity has the capacity to unilaterally control the relevant activities of OFA and therefore it has control over OFA.

Certain significant decisions, including the following are subject to the unanimous consent of the two stockholders: 1) the approval or modification of the budget of the year, and 2) changes to the development schedule, which do not modify the Entity's control over the subsidiary, as established in the master franchise contract.

**b. Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**1. Impairment of long-lived assets**

The Entity annually evaluates whether or not there is indication of impairment in long-lived assets and calculates the recoverable amount when indicators are present. Impairment occurs when the net carrying value of a long-lived asset exceeds its recoverable amount, which is the higher of the fair value of the asset less costs to sell and the value in-use of the asset. Calculation of the value in-use is based on the discounted cash flow model, using the Entity's projections of its operating results for the near future.

The recoverable amount of long-lived assets is subject to uncertainties inherent to the preparation of projections and the discount rate used for the calculation.

**2. Useful life of store equipment, leasehold improvements and property**

Fixed assets acquired separately are recognized at cost less accumulated depreciation and amortization and accrued losses for impairment. Depreciation is calculated based the straight-line method over the estimated useful life of assets. The estimated useful life and the depreciation method are reviewed at the end of each reporting period, and the effect of any changes in the estimation recorded is recognized prospectively.

**3. Income tax valuation**

The Entity recognizes net future tax benefits associated with deferred income tax assets based on the probability that future taxable income will be generated against which the deferred income tax assets can be utilized. Evaluating the recoverability of deferred income tax assets requires the Entity to prepare significant estimates related to the possibility of generating future taxable income.

Future taxable income estimates are based on projected cash flows from the Entity's operations and the application of the existing tax laws in Mexico.

The Entity's capacity to realize the net deferred tax assets recorded at any reporting date could be negatively affected to the extent that future cash flows and taxable income differ significantly from the Entity's estimates.

Additionally, future changes in Mexico's tax laws could limit the capacity to obtain tax deductions in future periods.

**4. Intangible assets**

The period and amortization method of an intangible asset with a defined life is reviewed at a minimum at each reporting date. Changes to the expected useful life or the expected pattern of consumption of future economic benefits are made changing the period or amortization method, as the case may be, and are treated as changes in the accounting estimations. Amortization expenses of an intangible asset with a definite useful life are recorded in income under the expense caption in accordance with the function of the intangible asset.

**5. Fair value measurements and valuation processes**

Some of the Entity's assets and liabilities are measured at fair value for financial reporting purposes. The Entity's Board of Directors has set up a valuation committee, which is headed up by the Entity's Financial Director, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or liability, the Entity uses market-observable data to the extent it is available. When level 1 inputs are not available, the Entity engages third party qualified appraisers to perform the valuation.

The valuation committee works closely with the qualified external appraiser to establish the appropriate valuation techniques and inputs to the model. Every three months, the Financial Director reports the findings of the valuation committee to the Entity's board of directors to explain the causes of fluctuations in the fair value of assets and liabilities.

Information about the valuation techniques and inputs used in the determining the fair value of various assets and liabilities are disclosed Note 22 i.

## 6. Contingencies

Given their nature, contingencies are only resolved when one or more future events occur or cease to occur. The evaluation of contingencies inherently includes the use of significant judgment and estimations of the outcomes of future events.

## 5. NON-MONETARY TRANSACTIONS

The Entity carried out the following activities which did not generate or utilize cash, for which reason, they are not shown in the consolidated statements of cash flows:

In October 2015, the Entity acquired 71.76% of the capital stock of Food Service Project, S.L. ("FSP"), incorporated in Spain, and which, together with its subsidiaries, is denominated "Grupo Zena". Under the terms of this transaction, in this transaction an option to purchase and sale was recorded in accordance with IAS 32, *Financial Instruments: Presentation*, is established (see Note 19).

## 6. CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statements of cash flows, the cash and cash equivalents caption includes cash, banks and investments in money market instruments. The cash and cash equivalents balance included in the consolidated statements of financial position and the consolidated statements of cash flows at December 31, 2017, 2016 and 2015 is comprised as follows:

	2017	2016	2015
Cash	\$ 1,453,537	\$ 1,878,770	\$ 632,628
Investments with original maturities of under three months	86,866	669,072	563,186
<b>Total cash and cash equivalents</b>	<b>\$ 1,540,403</b>	<b>\$ 2,547,842</b>	<b>\$ 1,195,814</b>

The Entity maintains its cash and cash equivalents with accepted financial entities and it has not historically experienced losses due to credit risk concentration.

## 7. CUSTOMERS, NET

The accounts receivable from customers disclosed in the consolidated statements of financial position are classified as loans and accounts receivable and therefore they are valued at their amortized cost.

At December 31, 2017, 2016 and 2015, the customer balance is comprised as follows:

	2017	2016	2015
Franchises	\$ 247,118	\$ 315,864	\$ 332,485
Credit card	304,419	105,115	163,584
Other	530,920	419,059	261,971
	1,082,457	840,038	758,040
Allowance for doubtful accounts <sup>(1)</sup>	(162,193)	(131,658)	(118,097)
	\$ 920,264	\$ 708,380	\$ 639,943

(1) The estimates presented in the consolidated statements of financial position refer to the balances of doubtful accounts aged more than 90 days involving franchisees. The estimates recognized mainly for the concept are \$162,193, \$131,658, \$118,097 in 2017, 2016 and 2015, respectively. These estimates plus certain guarantees cover the overdue amount. The recognized impairment represents the difference between the book values of these customer account receivables and the current value of the resources expected from their settlement. The Entity does not hold any collateral for these balances.

The average credit term for the sale of food, beverages, containers, packaging, royalties and other items to owners of sub-franchises is from 8-30 days. Starting from the day next dates of the contractual maturity are generated interests on the defeated balance at moment of settlement. The rate comprises the Mexican Interbank Equilibrium Rate (TIIE) plus 5 points and is multiplied by 2.

Following is the aging of past due but unimpaired accounts receivable:

	2017	2016	2015
15-60 days	\$ 13,371	\$ 29,052	\$ 43,648
60-90 days	13,044	6,126	9,230
More than 90 days	153,900	129,561	95,161
<b>Total</b>	<b>\$ 180,315</b>	<b>\$ 164,739</b>	<b>\$ 148,039</b>
Average time overdue (days)	95	93	60

The concentration of credit risk is limited because the balance is composed of franchisees which are supported or controlled by a service contract and / or master franchise; likewise consists of balances with from financial institutions cards, which are recovered within from 15 days.

## 8. INVENTORIES, NET

At December 31, 2017, 2016 and 2015, inventories are as follows:

	2017	2016	2015
Food and beverages	\$ 1,869,134	\$ 1,383,029	\$ 1,083,807
Containers and packaging	65,759	55,001	84,235
Other <sup>(1)</sup>	82,591	145,237	214,983
Obsolescence allowance	(7,705)	(7,904)	(5,044)
<b>Total</b>	<b>\$ 2,009,779</b>	<b>\$ 1,575,363</b>	<b>\$ 1,377,981</b>

(1) In others are concepts such as toys, uniforms, cleaning utensils, kitchen appliances and souvenirs.

Inventories recognized under cost of sales for inventory consumption in the period related to continuous operations totaled \$12,923,189, \$11,779,630 and \$10,149,276 for the years ended December 31, 2017, 2016 and 2015, respectively.

## 9. ADVANCE PAYMENTS

Advance payments were made for the acquisition of:

	2017	2016	2015
Insurance and other services	\$ 288,458	\$ 287,426	\$ 220,783
Inventories	91,029	80,529	62,249
Lease of locales	32,076	34,235	39,354
<b>Total</b>	<b>\$ 411,563</b>	<b>\$ 402,190</b>	<b>\$ 322,386</b>

## 10. STORE EQUIPMENT, LEASEHOLD IMPROVEMENTS AND PROPERTY, NET

Store equipment, leasehold improvements and properties are as follows:

COST	BUILDINGS	STORE EQUIPMENT	LEASEHOLD IMPROVEMENTS	CAPITAL LEASE	TRANSPORTATION EQUIPMENT	COMPUTER EQUIPMENT	PRODUCTION EQUIPMENT	OFFICE FURNITURE AND EQUIPMENT	CONSTRUCTION IN PROCESS	TOTAL
Balance at January 1, 2015	\$ 797,139	\$ 4,109,295	\$ 6,190,457	\$ 288,428	\$ 172,027	\$ 552,255	\$ 940,450	\$ 277,415	\$ 1,145,279	\$ 14,472,745
Acquisitions	14,783	1,153,047	1,239,062	-	41,315	205,232	41,196	36,161	254,022	2,984,818
Disposals	-	(183,125)	(335,952)	-	(23,113)	(23,962)	(5,903)	(163)	-	(572,218)
Adjustment for currency conversion	(5,617)	(58,817)	(98,739)	-	(1,826)	(4,945)	(1,076)	(4,649)	(11,976)	(187,645)
Balance as of December 31, 2015	806,305	5,020,400	6,994,828	288,428	188,403	728,580	974,667	308,764	1,387,325	16,697,700
Acquisitions	13,795	1,198,304	1,481,780	-	55,179	157,539	14,795	33,612	1,093,240	4,048,244
Business acquisition	37,360	28,963	26,726	-	113	554	-	14,039	-	107,755
Disposals	(1,712)	(182,068)	(289,267)	-	(38,362)	(55,780)	-	(17,656)	-	(584,845)
Adjustment for currency conversion	11,545	260,565	463,430	-	8,306	50,196	(11)	37,004	26,442	857,477
Balance as of December 31, 2016	867,293	6,326,164	8,677,497	288,428	213,639	881,089	989,451	375,763	2,507,007	21,126,331
Acquisitions	152,336	1,828,314	2,649,953	-	54,260	207,480	29,461	139,597	(365,730)	4,695,671
Reclassified of financial leases	(89,873)	-	(58,867)	-	-	-	-	-	-	(148,740)
Disposals	(29,910)	(198,285)	(357,784)	-	(34,583)	(51,942)	(9,645)	(45,294)	-	(727,443)
Adjustment for currency conversion	17,096	46,570	92,533	-	4,136	17,388	-	22,981	-	200,704
Balance as of December 31, 2017	\$ 916,942	\$ 8,002,763	\$ 11,003,332	\$ 288,428	\$ 237,452	\$ 1,054,015	\$ 1,009,267	\$ 493,047	\$ 2,141,277	\$ 25,146,523

DEPRECIATION	BUILDINGS	STORE EQUIPMENT	LEASEHOLD IMPROVEMENTS	CAPITAL LEASE	TRANSPORTATION EQUIPMENT	COMPUTER EQUIPMENT	PRODUCTION EQUIPMENT	OFFICE FURNITURE AND EQUIPMENT	CONSTRUCTION IN PROCESS	TOTAL
Balance at January 1, 2015	\$ 84,871	\$ 1,423,669	\$ 1,959,787	\$ (5,181)	\$ 85,894	\$ 328,698	\$ 522,531	\$ 51,439	\$ -	\$ 4,451,708
Charge for depreciation for the year	8,743	633,620	727,164	14,708	33,161	112,523	45,595	20,827	-	1,596,341
Adjustment for currency conversion	-	(22,824)	(42,948)	-	(1,094)	(3,406)	(1,490)	3	-	(71,759)
Disposals	-	(141,946)	(229,691)	-	(20,106)	(22,056)	(2,421)	(146)	-	(416,366)
Balance as of December 31, 2015	93,614	1,892,519	2,414,312	9,527	97,855	415,759	564,215	72,123	-	5,559,924
Charge for depreciation for the year	4,115	783,655	958,511	13,061	35,639	142,494	23,946	28,253	-	1,989,674
Adjustment for currency conversion	904	156,143	229,462	-	3,240	38,240	23	22,497	-	450,509
Disposals	-	(148,666)	(286,532)	-	(36,610)	(57,654)	(737)	(17,022)	-	(547,221)
Balance as of December 31, 2016	98,633	2,683,651	3,315,753	22,588	100,124	538,839	587,447	105,851	-	7,452,886
Charge for depreciation for the year	49,040	902,852	1,131,063	12,624	39,257	160,583	36,848	36,182	-	2,368,449
Reclassified as held for sale	(41,628)	-	(19,876)	-	-	-	-	-	-	(61,504)
Adjustment for currency conversion	7,364	69,706	67,637	-	1,255	15,223	-	13,696	-	174,881
Disposals	(15,522)	(169,725)	(266,354)	-	(25,870)	(42,555)	(5,074)	(35,568)	-	(560,668)
Balance as of December 31, 2017	\$ 97,887	\$ 3,486,484	\$ 4,228,223	\$ 35,212	\$ 114,766	\$ 672,090	\$ 619,221	\$ 120,161	\$ -	\$ 9,374,044

NET COST

Balance as of December 31, 2015	\$ 712,691	\$ 3,127,881	\$ 4,580,516	\$ 278,901	\$ 90,548	\$ 312,821	\$ 410,452	\$ 236,641	\$ 1,387,325	\$ 11,137,776
Balance as of December 31, 2016	\$ 768,660	\$ 3,642,513	\$ 5,361,744	\$ 265,840	\$ 113,515	\$ 342,250	\$ 402,004	\$ 269,912	\$ 2,507,007	\$ 13,673,445
Balance as of December 31, 2017	\$ 819,055	\$ 4,516,279	\$ 6,775,109	\$ 253,216	\$ 122,686	\$ 381,925	\$ 390,046	\$ 372,886	\$ 2,141,277	\$ 15,772,479

## 11. INTANGIBLE ASSETS, NET

Intangible assets are comprised as follows:

COST	BRAND RIGHTS	COMMISSIONS FOR STORE OPENING	FRANCHISE AND USE OF LOCALE RIGHTS	LICENSES AND DEVELOPMENTS	GOODWILL	TOTAL
Balance at January 1, 2015	\$ 7,813,255	\$ 378,644	\$ 875,130	\$ 572,461	\$ 6,881,265	\$ 16,520,755
Acquisitions	94,601	603	173,013	143,255	-	411,472
Adjustment for currency conversion	15,359	(1,031)	(6,574)	(841)	-	6,913
Disposals	(9,313)	(8,227)	(5,219)	(275)	-	(23,034)
Balance as of December 31, 2015	7,913,902	369,989	1,036,350	714,600	6,881,265	16,916,106
Acquisitions	201,442	6,829	139,489	203,238	-	550,998
Business acquisition	245,156	-	-	-	-	245,156
Adjustment for currency conversion	90,006	14,810	5,519	38,493	-	148,828
Disposals	(4,503)	(7,060)	(2,785)	(1,835)	-	(16,183)
Balance as of December 31, 2016	8,446,003	384,568	1,178,573	954,496	6,881,265	17,844,905
Acquisitions	93,578	-	216,519	201,619	-	511,716
Adjustment for currency conversion	35,585	3,551	(2,806)	25,001	-	61,331
Disposals	(12,668)	(11,025)	(29,078)	(4,870)	-	(57,641)
Impairment losses	-	-	-	-	(3,647)	(3,647)
Balance as of December 31, 2017	\$ 8,562,498	\$ 377,094	\$ 1,363,208	\$ 1,176,246	\$ 6,877,618	\$ 18,356,664

AMORTIZATION	BRAND RIGHTS	COMMISSIONS FOR STORE OPENING	FRANCHISE AND USE OF LOCALE RIGHTS	LICENSES AND DEVELOPMENTS	GOODWILL	TOTAL
Balance at January 1, 2015	\$ 811,015	\$ 371,126	\$ 279,982	\$ 418,058	\$ 16,953	\$ 1,897,134
Amortization	128,657	9,693	95,598	117,608	-	351,556
Adjustment for currency conversion	(593)	(3,243)	(3,243)	(357)	-	(7,436)
Disposals	(3,880)	(10,472)	(1,732)	(68)	-	(16,152)
Balance as of December 31, 2015	935,199	367,104	370,605	535,241	16,953	2,225,102
Amortization	173,917	8,571	77,295	138,778	-	398,561
Adjustment for currency conversion	10,144	12,887	515	34,738	-	58,284
Disposals	(37,901)	(7,390)	(3,477)	(3,610)	-	(52,378)
Balance as of December 31, 2016	1,081,359	381,172	444,938	705,147	16,953	2,629,569
Amortization	137,481	3,235	110,381	132,129	-	383,226
Adjustment for currency conversion	3,922	3,412	567	21,279	-	29,180
Disposals	(4,689)	(10,761)	(21,867)	(6,000)	-	(43,317)
Balance as of December 31, 2017	\$ 1,218,073	\$ 377,058	\$ 534,019	\$ 852,555	\$ 16,953	\$ 2,998,658

NET COST						
Balance as of December 31, 2015	\$ 6,978,703	\$ 2,885	\$ 665,745	\$ 179,359	\$ 6,864,312	\$ 14,691,004
Balance as of December 31, 2016	\$ 7,364,644	\$ 3,396	\$ 733,635	\$ 249,349	\$ 6,864,312	\$ 15,215,336
Balance as of December 31, 2017	\$ 7,344,425	\$ 36	\$ 829,189	\$ 323,691	\$ 6,860,665	\$ 15,358,006

## 12. OPERATING LEASE AGREEMENTS

### a. Operating leases

The real estate housing the majority of the stores of Alsea are leased from third parties. In general terms, lease agreements signed for the operations of the Entity's establishments are for a term of between five and ten years, with fixed rates set in pesos. Lease payments are generally revised annually and they increase on the basis of inflation. Alsea considers that it depends on no specific lessor and there are no restrictions for the entity as a result of having signed such agreements.

Some of the Entity's subsidiaries have signed operating leases for company vehicles and computer equipment.

In the event of breach of any of the lease agreements, the Entity is required to settle in advance all its obligations, including payments and penalties for early termination, and it must immediately return all vehicles to a location specified by the lessor.

The amounts of the lease payments derived from the operating leases related to the premises where the stores of the different Alsea Brands are located are presented below.

Rental expense derived from operating lease agreements related to the real estate housing the stores of the different Alsea Brands are as follows:

	2017	2016	2015
Minimum lease payments	\$ 4,031,877	\$ 3,274,251	\$ 2,851,083

#### b. Commitments non-cancellable operating leases

	2017	2016	2015
Less than a year	\$ 2,845,064	\$ 1,924,672	\$ 1,744,166
Between one and five years	11,524,706	8,662,305	7,833,383

#### c. Financial lease liabilities

From 2014, the Entity has entered into leases that qualify as finance in the Vips brand, which are recorded at present value of minimum lease payments or the market value of the property, whichever is less, and are amortized over the period of the lease renewals considering them.

Future minimum lease payments and the present value of the minimum lease payments are summarized below:

	MINIMUM PAYMENTS OF LEASES		
	2017	2016	2015
Less than a year	\$ 32,398	\$ 32,398	\$ 32,789
Between one and five years	115,009	97,195	97,195
More than five years	490,185	536,997	566,261
	637,592	666,590	696,245
Less future finance charges	(336,149)	(358,956)	(381,915)
Minimum lease payments	\$ 301,443	\$ 307,634	\$ 314,330

#### PRESENT VALUE OF MINIMUM PAYMENTS OF LEASES

	2017	2016	2015
Less than a year	\$ 6,799	\$ 6,799	\$ 7,190
Between one and five years	25,086	20,398	20,398
More than five years	269,558	280,437	286,742
Present value of minimum lease payments	\$ 301,443	\$ 307,634	\$ 314,330
Included in the consolidated financial statements as:			
Short-term financial liability	\$ 6,799	\$ 6,799	\$ 7,190
Long-term financial liability	294,644	300,835	307,140
	\$ 301,443	\$ 307,634	\$ 314,330

#### 13. INVESTMENT IN SUBSIDIARIES

The Entity's shareholding in the capital stock of its main subsidiaries is as follows:

NAME OF SUBSIDIARY	PRINCIPAL ACTIVITY	2017	2016	2015
Panadería y Alimentos para Food Service, S.A. de C.V.	Distribution of Alsea brand foods	100.00%	100.00%	100.00%
Café Sirena, S. de R.L. de C.V.	Operator of the Starbucks brand in Mexico	100.00%	100.00%	100.00%
Operadora de Franquicias Alsea, S.A. de C.V.	Operator of the Burger King brand in Mexico	80.00%	80.00%	80.00%
Operadora y Procesadora de Productos de Panificación, S.A. de C.V.	Operator of the Domino's Pizza brand in Mexico	100.00%	100.00%	100.00%
Gastrosur, S.A. de C.V.	Operator of the Chili's Grill & Bar brand in Mexico	100.00%	100.00%	100.00%
Fast Food Sudamericana, S.A.	Operator of the Burger King brand in Argentina	100.00%	100.00%	100.00%
Fast Food Chile, S.A.	Operator of the Burger King brand in Chile	100.00%	100.00%	100.00%
Starbucks Coffee Argentina, S.R.L.	Operator of the Starbucks brand in Argentina	100.00%	100.00%	100.00%
Dominalco, S.A. (1)	Operator of the Domino's Pizza brand in Colombia	-	93.30%	93.25%
Servicios Múltiples Empresariales ACD, S.A. de C.V. (before SOFOM E.N.R.)	Operator of Factoring and Financial Leasing in Mexico	100.00%	100.00%	100.00%
Asian Bistro Colombia, S.A.S.	Operator of the P.F. Chang's brand in Colombia	100.00%	100.00%	100.00%
Asian Bistro Argentina, S.R.L.	Operator of the P.F. Chang's brand in Argentina	100.00%	100.00%	100.00%
Operadora Alsea en Colombia, S.A.	Operator of the Burger King brand in Colombia	94.94%	94.94%	94.91%

NAME OF SUBSIDIARY	PRINCIPAL ACTIVITY	2017	2016	2015
Asian Food, Ltda.	Operator of the P.F. Chang's brand in Chile	100.00%	100.00%	100.00%
Grupo Calpik, S.A.P.I. de C.V.	Operator of the California Pizza Kitchen brand in Mexico	100.00%	100.00%	100.00%
Especialista en Restaurantes de Comida Estilo Asiática, S.A. de C.V.	Operator of the P.F. Chang's	100.00%	100.00%	100.00%
Distribuidora e Importadora Alsea, S.A. de C.V.	Distributor of foods and production materials for the Alsea and related Brands	100.00%	100.00%	100.00%
Italcafe, S.A. de C.V.	Operator of Italianni's brand	100.00%	100.00%	100.00%
Grupo Amigos de San Ángel, S.A. de C.V.	Operator of Italianni's brand	100.00%	100.00%	100.00%
Grupo Amigos de Torreón, S.A. de C.V.	Operator of Italianni's brand	100.00%	100.00%	100.00%
Grupo Amigos de Perisur, S.A. de C.V. (2)	Operator of Italianni's brand	-	-	100.00%
Starbucks Coffee Chile, S.A.	Operator of the Starbucks brand in Chile	100.00%	100.00%	100.00%
Distribuidora e Importadora Alsea Colombia, S.A.S. (1)	Distributor of food and supplies for Alsea Brands in Colombia	-	100.00%	100.00%
Estrella Andina, S.A.S.	Operator of the Starbucks brand in Colombia	70.00%	70.00%	70.00%
Operadora Vips, S. de R.L. de C.V.	Operator of Vips brand	100.00%	100.00%	100.00%
OPQR, S.A de C.V.	Operator Brand Cheesecake Factory in Mexico	100.00%	100.00%	100.00%
Food Service Project, S.L. (Grupo Zena)	Operator of Spain	71.76%	71.76%	71.76%
Gastrococina Sur, S.P.A.	Operator of Chili's Grill & Bar in Chile	100.00%	100.00%	-
Gastronomía Italiana en Colombia, S.A.S. (1)	Operator of Archie's brand in Colombia	97.60%	100.00%	-
Operadora GB Sur, S.A. de C.V.	Operator of the Burger King and Domino's Pizza brand in Mexico	70.90%	-	-

(1) On July 19, 2017, the merger project between Distribuidora e Importadora Alsea Colombia, S.A.S. and Dominalco, S.A. as merged companies and designating as a merging company Gastronomía Italiana en Colombia, S.A.S. assuming the latter, all the rights and obligations of the merger.

(2) On December 18, 2015, the Extraordinary General Shareholders' Meeting approved the merger between Amigos de Perisur, S.A. de C.V. (APE) as a merged company and the entity Amigos de Torreón, S.A. de C.V. as merging entity, assuming the latter, all the rights and obligations of APE. This merger had effects between the parties as of December 31, 2015.

#### 14. INVESTMENT IN SHARES OF ASSOCIATED COMPANIES

Investment in the non-controlling interest of Blue Stripes Chile

During May 2015, Alsea reached an agreement to contribute 33% of the capital stock of Blue Stripes Chile, entity incorporated in Chile. Initial contribution by Alsea amounted to \$6,477, recognized in the consolidated statements of financial position as investment in shares of associated companies. The remaining 67% was contributed by Grupo Axo, associated company. In accordance with the bylaws, Alsea will not have control over such operation.

At December 31, 2017, 2016 and 2015, the investment in shares of associated companies is comprised of the Entity's direct interest in the capital stock of the companies listed below:

	2017	% 2016	2015	MAIN OPERATIONS	INTEREST IN ASSOCIATED COMPANY		
					2017	2016	2015
Grupo Axo, S.A.P.I. de C.V. (2) (4) (5)	-	25.00%	25.00%	Sales of prestigious Brands of clothes and accessories in Mexico	\$ -	\$ 995,596	\$ 892,169
Blue Stripes Chile SPA (5)	-	33.33%	33.33%	Sales of prestigious Brands of clothes and accessories in Chile	-	9,717	6,511
Stripes Chile SPA (1) (3) (5)	-	33.33%	33.33%	Sales of prestigious Brands of clothes and accessories in Chile	-	30,662	24,282
<b>Total</b>					<b>\$ -</b>	<b>\$ 1,035,975</b>	<b>\$ 922,962</b>

SUBSIDIARIA	2017	% 2016	2015	MAIN OPERATIONS	EQUITY IN RESULTS		
					1/1/2017 TO 10/19/2017	2016	2015
Grupo Axo, S.A.P.I. de C.V.	25.00%	25.00%	25.00%	Sales of prestigious Brands of clothes and accessories in Mexico	\$ (3,487)	\$ 65,989	\$ 27,396
Blue Stripes Chile SPA <sup>(1)</sup>	33.33%	33.33%	33.33%	Sales of prestigious Brands of clothes and accessories in Chile	1,892	1,506	2
Stripes Chile SPA	33.33%	33.33%	33.33%	Sales of prestigious Brands of clothes and accessories in Chile	1,158	382	305
<b>Total</b>					<b>\$ (437)</b>	<b>\$ 67,877</b>	<b>\$ 27,703</b>

- (1) Stripes Chile SPA is a direct subsidiary of Grupo Axo together with another subsidiary of the Entity.  
(2) In 2015, contributions were made to increase the capital in Grupo Axo, by \$38,706.  
(3) In 2015, the contribution to the capital increase of \$20,220 in Stripes Chile made.  
(4) In 2016, Grupo Axo presents movements in its stockholders' equity resulting from the acquisition of businesses, the option to purchase unincorporated interests in associates and hedging financial instruments for \$37,438, which are presented in the Consolidated Statement of Changes in Stockholders' Equity.  
(5) As mentioned in Note 1a, on October 19, 2017, Alsea concluded the process of selling the investment in an associate - Grupo Axo, S.A.P.I. de C.V. which generated a gain on sale of shares for \$608,817, accounted for under other (income) expense in the consolidated statements of income.

#### Stripes Chile SPA

Total assets, liabilities, equity and profit and losses of the associated entity are as follows:

	2017	2016	2015
Current assets	\$ -	\$ 70,058	\$ 43,621
Non-current assets	\$ -	\$ 60,025	\$ 55,315
Current liabilities	\$ -	\$ 38,088	\$ 26,081

	1/01/2017 TO 10/19/2017	2016	2015
Income	\$ 87,228	\$ 132,312	\$ 85,486
Net profit for the period	\$ 3,474	\$ 1,146	\$ 915

#### Blue Stripes Chile SPA

Total assets, liabilities, equity and profit and losses of the associated entity are as follows:

	2017	2016	2015
Current assets	\$ -	\$ 40,512	\$ 16,478
Non-current assets	\$ -	\$ 33,548	\$ 9,531
Current liabilities	\$ -	\$ 44,906	\$ 6,475

	1/01/2017 TO 19/10/2017	2016	06/01/2015 TO 12/31/2015
Income	\$ 98,874	\$ 63,642	\$ 11,904
Net profit for the period	\$ 5,677	\$ 4,518	\$ 5

#### Grupo Axo, S.A.P.I. de C.V.

The associated company's total assets, liabilities and equity and its results are as follows:

	2017	2016	2015
Current assets	\$ -	\$ 3,656,612	\$ 2,380,902
Non-current assets	\$ -	\$ 3,182,682	\$ 3,169,338
Current liabilities	\$ -	\$ 2,168,965	\$ 1,733,052
Non-current liabilities	\$ -	\$ 2,927,493	\$ 2,488,060

	01/01/2017 TO 10/19/2017	2016	2015
Revenues	\$ 5,769,233	\$ 6,144,101	\$ 4,504,291
Net (loss) profit for the period	\$ (13,948)	\$ 263,956	\$ 109,584

The reconciliation of the financial information summarized above regarding the carrying value of the interest in Grupo Axo is as follows:

	2017	2016	2015
Net assets of the associated entity	\$ -	\$ 1,742,836	\$ 1,329,128
Entity's interest in Grupo Axo	\$ -	\$ 435,709	\$ 332,282
Plus: goodwill	-	559,887	559,887
Carrying value of the Entity's interest in Grupo Axo	\$ -	\$ 995,596	\$ 892,169

## 15. BUSINESS COMBINATION

The following transactions classify as a business combination and have been recognized by utilizing the purchase method as of the acquisition date based on the following steps:

- Recognize and value the assets, liabilities and non-controlling interest.
- In a business combination performed by stages, the buyer revalues its equity in the acquired entity prior to the acquisition date at face value to recognize the resulting profit or loss, as the case may be in results.
- Identify intangible assets and determine goodwill.

### Acquisition of Archie's

In April 2016, the acquisition of 100% of Archie's (described in Note 1) was completed, the final price of the consideration paid for the acquisition was \$51,275,000,000 Colombian pesos (equivalent to \$293,027), in an agreement between Alsea e Inversiones Vesubio Colombia, S.A.S. (previously Archie's Colombia, S.A.S.).

The following is an analysis of the allocation of the acquisition cost over the fair values of the net assets acquired. Given that the total value of the consideration paid was equal to the fair value of the net assets acquired, there were no changes in the preliminary accounting of the acquisition:

CONCEPT	MARCH 2016
<b>Current assets:</b>	
Inventories	\$ 10,197
<b>Non-current assets:</b>	
Store equipment and leasehold improvements	107,755
Intangible assets	245,156
<b>Current liabilities:</b>	
Accounts payable to suppliers and other accounts	(68,764)
Taxes to pay	(1,317)
Fair value of net assets	293,027
Total consideration paid	293,027
Goodwill	\$ -

From the date of acquisition until December 31, 2016, Archie's contributed \$332,652 to sales and (\$15,688) to net income.

### Acquisition of Grupo Zena

In October 2014, the process to acquire of Food Service Group, S.A. and Tuera 16, S.A., S.C.R., entities resident in Luxembourg and Spain, respectively, was concluded. The acquisition involved 71.76% of the common stock of the company denominated as Food Service Project, S.L. ("FSP"), an entity incorporated according to the laws of Spain and which, in conjunction with its subsidiaries, is known as "Grupo Zena".

The acquisition amount was \$102,872 thousand Euros, payable in cash (equal to \$1,794,245).

The acquisition does not consider any contingent payment. The transaction establishes an obligation under put option involving 28.24% of common stock four years after the acquisition date, which was recorded according to IAS 32, *Financial Instruments: Presentation* (Note 19).

In October 2015, the acquisition measurement period concluded. An analysis of the assignment of the acquisition cost based on the fair values of the acquired net assets at the acquisition date is presented below. Certain interim accounting changes were made to the acquisition at that date, as detailed below:

CONCEPT	PRELIMINARY BOOK ENTRY	ADJUSTMENT FOR VALUATION	FAIR VALUE
<b>Current assets:</b>			
Cash and cash equivalents	\$ 89,287	\$ -	\$ 89,287
Accounts receivable and other accounts receivable	245,968	-	245,968
<b>Non-current assets:</b>			
Store equipment, leasehold improvements and property, net	1,231,979	261,998	1,493,977
Intangible assets	470,473	1,222,642	1,693,115
Reassigning Goodwill included in Grupo Zena	1,313,786	(1,313,786)	-
Deferred income taxes	174,859	-	174,859
<b>Current liabilities:</b>			
Suppliers and other accounts payable	(1,279,228)	-	(1,279,228)
<b>Non-current liabilities:</b>			
Deferred income taxes	-	(445,393)	(445,393)
Long-term debt	(1,845,132)	-	(1,845,132)
Other long-term liabilities	(165,459)	-	(165,459)
Fair value of net assets	236,533	(274,539)	(38,006)
Considerations paid in cash	1,794,245	-	1,794,245
Fair value of non-controlling interest	706,098	(101,521)	604,577
Total consideration paid	2,500,343	(101,521)	2,398,822
Goodwill	\$ 2,263,810	\$ 173,018	\$ 2,436,828

Goodwill arising from the acquisition of Grupo Zena derives from the price paid, which includes amounts in relation to the benefits of operating 427 stores for which market growth is expected based on a development plan over the next five years, as well the adjacent benefits, mainly the growth in income, operating synergies and the purchase of supplies. Those benefits are recognized separately in goodwill because they fail to meet the recognition criteria for identifiable intangible assets.

As from the acquisition date and until December 31, 2014, Grupo Zena has contributed \$1,468,036 to revenues and \$118,487 to the profit for the period. If the acquisition had occurred at beginning of year, Alsea's consolidated net profit for the period, according to IFRS, would have been \$496,005 and revenues would have been \$26,464,123. Acquisition expenses related to this transaction amounted to \$12,096, which is shown within other expenses.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash flows related to the acquisition of the subsidiary total \$1,704,958, corresponding to the consideration paid in cash of \$1,794,245, less cash and cash and cash equivalent balances acquired in the amount of \$89,287.

#### Acquisition of Vips

In April 2014, the process to acquire 100% of the equity of Vips (the restaurant division of Grupo Wal-Mart, described in Note 1) was concluded. Based on the agreement executed between Alsea and Wal-Mart de México, S.A.B. de C.V., the final acquisition price was \$8,200,000. Additional expenses of \$516,753 were incurred by the parties, thereby resulting in a total price of \$8,716,753.

The acquisition does not consider any contingent payment.

In March 2015, the acquisition measurement period concluded. An analysis of the assignment of the acquisition cost based on the fair values of the acquired net assets at the acquisition date is presented below. Certain interim accounting changes were made to the acquisition at that date, as detailed below:

CONCEPT	PRELIMINARY BOOK ENTRY	ADJUSTMENT FOR VALUATION	FAIR VALUE
<b>Current assets:</b>			
Cash and cash equivalents	\$ 605,400	\$ -	\$ 605,400
Accounts receivable and other accounts receivable	304,964	-	304,964
<b>Non-current assets:</b>			
Store equipment, leasehold improvements and property, net	2,935,630	(45,260)	2,890,370
Intangible assets	365,944	3,573,000	3,938,944
Deferred income taxes	201,845	16,427	218,272
<b>Current liabilities:</b>			
Accrued expenses and employee benefits	(700,918)	(22,872)	(723,790)
<b>Non-current liabilities:</b>			
Deferred income taxes	-	(1,209,453)	(1,209,453)
Other long-term liabilities	(366,651)	-	(366,651)
Fair value of net assets	3,346,214	2,311,842	5,658,056
Considerations paid in cash	8,716,753	-	8,716,753
Goodwill	\$ 5,370,539	\$ (2,311,842)	\$ 3,058,697

Goodwill arising from the acquisition of Vips derives from the price paid, which includes amounts in relation to the benefits of operating 360 stores for which market growth is expected based on a development plan over the next five years, as well the adjacent benefits, mainly the growth in income, operating synergies and the purchase of supplies.

Those benefits are recognized separately in goodwill because they fail to meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash flows related to the acquisition of the subsidiary total \$8,111,353, corresponding to the consideration paid in cash of \$8,716,753, less cash and cash and cash equivalent balances acquired for \$605,400.

As from the acquisition date and until December 31, 2014, Vips has contributed \$4,016,325 to consolidated revenues and \$111,628 to the profit before income taxes for the period. If the acquisition had occurred at beginning of year, Alsea's consolidated net profit for the period would have been \$683,119 and revenues would have been \$24,723,880.

Acquisition expenses related to this transaction amounted to \$9,357, which is shown within other expenses.

## 16. GOODWILL

Assignment of goodwill to cash generating units

In order to carry out impairment tests, goodwill was assigned to the following cash generating units:

	2017	2016	2015
Burger King	\$ 1,336,967	\$ 1,336,967	\$ 1,336,967
Domino's Pizza	1,078,622	1,078,622	1,078,622
Chili's	26,614	26,614	26,614
Italianni's	785,816	785,816	785,816
Vips	3,058,697	3,058,697	3,058,697
Starbucks Coffee	368,513	368,513	368,513
Foster's Hollywood	198,598	198,598	198,598
La Vaca Argentina <sup>(1)</sup>	-	3,270	3,270
Il Tempietto <sup>(1)</sup>	-	377	377
Cañas y Tapas	6,838	6,838	6,838
	<b>\$ 6,860,665</b>	<b>\$ 6,864,312</b>	<b>\$ 6,864,312</b>

(1) At December 31, 2017, the goodwill assigned to the La Vaca Argentina and Il Tempietto Brands was impaired by \$3,270 and \$377, respectively.

As of December 31, 2017, 2016 and 2015, the studies carried out on the impairment tests concluded that the goodwill has no impairment, with the exception of the goodwill assigned to the Brands mentioned in the previous paragraph.

## 17. LONG-TERM DEBT

Long-term debt at December 31, 2017, 2016 and 2015 is comprised of unsecured loans, as shown below:

BANK	TYPE OF CREDIT	CURRENCY	RATE	MATURITY	2017	2016	2015
Sindicado	Simple credit	Euros	1.89% (Fixed rate)	2020	\$ 2,338,640	\$ 2,274,063	\$ 2,027,154
Scotiabank Inverlat, S.A.	Simple credit	Mexican pesos	7.08% (Variable rate TIIE +0.97%)	2019	-	1,957,553	2,032,790
Bank of America	Simple credit	Mexican pesos	7.30% (Variable rate TIIE +1.19%)	2021	-	1,884,000	-
Bank of America	Simple credit	Mexican pesos	6.11% (Fixed rate)	2019	1,000,000	1,000,000	1,000,000
Bank of Tokyo	Simple credit	Mexican pesos	7.06% (Variable rate TIIE +1.35%)	2021	-	996,078	574,063
Bank of Tokyo	Simple credit	Mexican pesos	7.06% (Variable rate TIIE +0.95%)	2021	900,000	-	-
Banco Nacional de Comercio Exterior S.N.C. (Bancomext)	Simple credit	Mexican pesos	7.45% (Variable rate TIIE +1.34%)	2024	600,000	866,400	-
Banco Santander, S.A.	Simple credit	Mexican pesos	7.11% (Variable rate TIIE +1.00%)	2021	260,000	796,267	-
Banco Nacional de México, S.A.	Simple credit	Mexican pesos	6.86% (Variable rate TIIE +0.75%)	2020	432,000	430,770	-
Scotiabank Inverlat, S.A.	Simple credit	Mexican pesos	Variable rate TIIE +0.90%	2019	270,000	-	-
Scotiabank Inverlat, S.A.	Simple credit	Mexican pesos	Variable rate TIIE +0.80%	2019	700,000	-	-
Scotiabank Inverlat, S.A.	Simple credit	Mexican pesos	Variable rate TIIE +1.00%	2021	400,000	-	-
Banco Santander, S.A.	Simple credit	Mexican pesos	Variable rate TIIE +1.00%	2022	485,310	-	-
Banco Citibank Argentina	Simple credit	Argentine pesos	27% (Fixed rate)	2017	-	303,355	47,974
BBVA Francés	Simple credit	Argentine pesos	22% (Fixed rate)	2017	-	146,200	1,788
Banco HSBC, S.A.	Simple credit	Colombian pesos	24.5% (Fixed rate)	2017	-	97,740	-
Santander Chile, S.A.	Simple credit	Chilean pesos	4.02% (Fixed rate)	2017	-	83,696	69,777
BBVA Francés	Simple credit	Argentine pesos	23.25% (Fixed rate)	2018	103,096	-	-
Banco HSBC, S.A.	Simple credit	Argentine pesos	29% (Fixed rate)	2018	110,442	-	-
Banco Citibank	Simple credit	Argentine pesos	29.25% (Fixed rate)	2018	3,553	-	-
Banco Citibank Argentina	Simple credit	Argentine pesos	29.50% (Fixed rate)	2018	19,638	-	-
Banco Citibank Argentina	Simple credit	Argentine pesos	29.25% (Fixed rate)	2018	72,323	-	-
Santander Chile, S.A.	Simple credit	Chilean pesos	3.6% (Fixed rate)	2018	85,918	-	-
Helm Bank USA	Simple credit	Colombian pesos	12.29% (Variable rate DTF +5.30%)	2020	-	14,922	-
					<b>7,780,920</b>	<b>10,851,044</b>	<b>5,753,546</b>
				Less – current portion	<b>(1,087,466)</b>	<b>(1,107,238)</b>	<b>(734,824)</b>
				Long-term debt maturities	<b>\$ 6,693,454</b>	<b>\$ 9,743,806</b>	<b>\$ 5,018,722</b>

Annual long-term debt maturities at December 31, 2017 are as follows:

YEAR	AMOUNT
2019	\$ 3,433,094
2020	1,882,860
2021-2027	1,377,500
	<u>\$ 6,693,454</u>

Bank loans include certain affirmative and negative covenants, such as maintaining certain financial ratios. At December 31, 2017, 2016 and 2015, all such obligations have been duly met.

### 18. DEBT INSTRUMENTS

In October 2017, the Entity placed of debt instruments worth \$1,000,000 over 5 years as from the issuance date, maturing in September 2022. Those instruments will accrue interest at the 28-day TIIE rate plus 0.90 percentage points; and other debt instrument worth \$2,000,000 over 10 years as from the issue date, maturing in September 2027. Those instruments will accrue interest at a fixed rate of 8.85%.

In September 2016, the Entity made an advance payment for \$2,500,400, considering accrued interest, of the stock certificate issued in 2013.

In March 2015, the Entity placed of debt instruments worth \$3,000,000 over 5 years as from the issuance date, maturing in March 2020. Those instruments will accrue interest at the 28-day TIIE rate plus 1.10 percentage points; and other debt instrument worth \$1,000,000 over 10 years as from the issue date, maturing in March 2017. Those instruments will accrue interest at a fixed rate of 8.07%.

The balance at December 31, 2017, 2016 and 2015 amounts to \$6,980,452, \$3,988,845 and \$6,479,795, respectively.

YEAR	AMOUNT
2020	\$ 2,980,452
2022	1,000,000
2025	1,000,000
2027	2,000,000
	<u>\$ 6,980,452</u>

### 19. OBLIGATION OVER PUT OPTION

In October 2014, the Entity acquired Grupo Zena; Alsea has the obligation over put option to purchase the non-controlling interest of the other investors (call option) starting in the fourth year since the date of acquisition. The amount represents the present value of the estimated debt that will be paid at the time of exercising the put option under the terms of the contract. The liability will be updated each year until the option date, and the effects will be recognized in the consolidated statements of income, as stated by IAS 32, *Financial instruments: Presentation*. The financial liability of the put option amounts to \$3,280,064, \$3,185,096 and \$2,777,328 at December 31, 2017, 2016 and 2015, respectively. The revaluation of this option as of December 31, 2017, 2016 and 2015 generated a loss in results by \$94,968, \$407,768 and \$104,275, respectively, and is included in 'Changes in the fair value of financial instruments' in the consolidated statements of income.

### 20. INCOME TAXES

The Entity is subject to ISR. Under the ISR Law the rate for 2017, 2016 and 2015 was 30% and will continue to 30% and thereafter. The Entity incurred ISR on a consolidated basis until 2013 with its Mexican subsidiaries. As a result of the 2014 Tax Law, the tax consolidation regime was eliminated, and the Entity and its subsidiaries have the obligation to pay the long-term income tax benefit calculated as of that date over a five-year period beginning in 2014, as illustrated below.

Pursuant to Transitory Article 9, section XV, subsection d) of the 2015 Tax Law, given that as of December 31, 2014, the Entity was considered to be a holding company and was subject to the payment scheme contained in Article 4, Section VI of the transitory provisions of the ISR law published in the Federal Official Gazette on December 7, 2009, or article 70-A of the ISR law of 2013 which was repealed, it must continue to pay the tax that it deferred under the tax consolidation scheme in 2007 and previous years based on the aforementioned provisions, until such payment is concluded.

As of 2008, the Assets Tax Law (LIMPAC) was eliminated, but under certain the amount of this paid in the 10 years immediately prior to that in which ISR is first paid may be recovered in accordance with applicable tax provisions.

The ISR liability as of December 31, 2017 is \$19,892 related to the effects for benefits and fiscal deconsolidation which will be paid in 2018.

In Chile, in September 2014, the government promulgates in its tax reform increased the rate gradually according to the following 22.5% in 2015, 24% to 2016, 25.5% to 2017, 25.5% to 2017 and to 2018 will be of 27%, based taxation system chose for the years 2017 and 2018. The change in the First Category Tax was pronounced in July 2010.

In Colombia, the tax applicable provide that the rate applicable to income tax for 2017 is 34% and for the year 2018 and 33% thereafter. Likewise, for taxable bases higher than \$800,000, you must pay a 6% surcharge for 2017 and 4% for the year 2018. In any case, as of the taxable year 2017, the taxable base of the income tax can not be less than 3.5% of the liquid assets of the immediately previous one.

Additionally, the fiscal losses determined as of 2017 may be compensated with liquid income obtained within the following twelve (12) years. The term to compensate for excess presumptive income will continue to be five (5) years. These tax credits may not be readjusted fiscally.

In Argentina i. - Tax on income, the Entity applies the deferred tax method to recognize the accounting effects of taxes on earnings at the 35% rate. ii. - Tax on presumptive minimum earnings (IGMP for its acronym in Spanish), the Entity determines IGMP applying the current 1% rate to assets computable at each year-end closing, iii. - Tax on personal goods of individuals or business entities residing abroad, the tax is determined applying the 0.25% to the proportional value of equity at the year-end closing and it is considered a single and final payment.

In Spain, tax reforms were approved for 2015, which include the reduction of this tax rate to 28% and 25% in 2017 and 2016, with the exception of credit institutions and entities engaged in hydrocarbon exploration, research and exploration. Newly-created companies will pay tax at the 15% rate during the first tax period in which their tax basis is positive and in the following period. Similarly, as part of these tax reforms, tax losses will be applicable without a time limitation; until 2015, the right to apply such losses expired after 18 years.

#### a. Income taxes recognized in income.

	2017	2016	2015
Income tax (tax basis)	\$ 985,351	\$ 825,874	\$ 691,060
Deferred income tax	(149,923)	(296,641)	(201,141)
	\$ 835,428	\$ 529,233	\$ 489,919

The tax expense attributable to income before ISR differs from that arrived at by applying the 30% statutory rate in 2017, 2016 and 2015 due to the following items:

	2017	2016	2015
Statutory income tax rate	30%	30%	30%
Non-deductible expenses	8%	7%	4%
Effects of inflation and others	9%	5%	5%
Fixed asset update	(6%)	(6%)	(5%)
Others	(1%)	(4%)	(2%)
Effective consolidated income tax rate	40%	32%	32%

#### b. Deferred taxes - balance sheet

Following is an analysis of deferred tax assets shown in the consolidated statements of financial position:

	2017	2016	2015
Deferred (assets) liabilities:			
Estimation for doubtful accounts and inventory obsolescence	\$ (2,347)	\$ (15,698)	\$ (36,942)
Liability provisions	(623,225)	(740,365)	(488,383)
Advances from customers	(164,635)	(16,176)	(105,167)
Unamortized tax losses	(186,952)	(82,078)	(102,640)
Recoverable asset tax	-	(12,269)	(12,269)
Store equipment, leasehold improvements and property	471,310	769,288	882,625
Advance payments	-	(84,223)	71,418
Other assets	123,515	(2)	5,752
	\$ (382,334)	\$ (181,523)	\$ 214,394

#### c. Deferred tax in statement of financial position

The following is the analysis of deferred tax assets (liabilities) presented in the consolidated statements of financial position:

	2017	2016	2015
Deferred tax assets	\$ 2,348,434	\$ 2,068,996	\$ 1,710,943
Deferred tax liabilities	1,966,100	1,887,473	1,925,337
	\$ (382,334)	\$ (181,523)	\$ 214,394

d. Deferred income tax balances

2017	BEGIN- NING BALANCE	RECOG- NIZED IN PROFIT OR LOSS	RECOG- NIZED IN STOCK- HOLDERS' EQUITY	ACQUI- SIONS	ENDING BALANCE
<b>Temporary differences</b>					
Estimation for doubtful accounts and inventory obsolescence	\$ (15,698)	\$ 13,351	\$ -	\$ -	\$ (2,347)
Liability provisions	(740,365)	153,907	(36,767)	-	(623,225)
Advances from customers	(16,176)	(148,459)	-	-	(164,635)
Store equipment, leasehold improvements and property	769,288	(283,857)	(14,121)	-	471,310
Prepaid expenses	(84,223)	207,738	-	-	123,515
Other assets	(2)	2	-	-	-
	(87,176)	(57,318)	(50,888)	-	(195,382)
<b>Tax loss carryforwards and unused tax credits</b>					
Tax loss carryforwards	(82,078)	(104,874)	-	-	(186,952)
Recoverable IMPAC	(12,269)	12,269	-	-	-
	(94,347)	(92,605)	-	-	(186,952)
	\$ (181,523)	\$ (149,923)	\$ (50,888)	\$ -	\$ (382,334)

2016	BEGIN- NING BALANCE	RECOG- NIZED IN PROFIT OR LOSS	RECOG- NIZED IN STOCK- HOLDERS' EQUITY	ACQUI- SIONS	ENDING BALANCE
<b>Temporary differences</b>					
Estimation for doubtful accounts and inventory obsolescence	\$ (36,942)	\$ 21,244	\$ -	\$ -	\$ (15,698)
Liability provisions	(488,383)	(196,680)	(55,302)	-	(740,365)
Advances from customers	(105,167)	88,991	-	-	(16,176)
Store equipment, leasehold improvements and property	882,625	(69,363)	(43,974)	-	769,288
Prepaid expenses	71,418	(155,641)	-	-	(84,223)
Other assets	5,752	(5,754)	-	-	(2)
	329,303	(317,203)	(99,276)	-	(87,176)
<b>Tax loss carryforwards and unused tax credits</b>					
Tax loss carryforwards	(102,640)	20,562	-	-	(82,078)
Recoverable IMPAC	(12,269)	-	-	-	(12,269)
	(114,909)	20,562	-	-	(94,347)
	\$ 214,394	\$ (296,641)	\$ (99,276)	\$ -	\$ (181,523)

2015	BEGIN- NING BALANCE	RECOG- NIZED IN PROFIT OR LOSS	RECOG- NIZED IN STOCK- HOLDERS' EQUITY	ACQUI- SIONS	ENDING BALANCE
<b>Temporary differences</b>					
Estimation for doubtful accounts and inventory obsolescence	\$ (34,028)	\$ (2,914)	\$ -	\$ -	\$ (36,942)
Liability provisions	(447,253)	(14,330)	(26,800)	-	(488,383)
Advances from customers	(70,341)	(34,826)	-	-	(105,167)
Store equipment, leasehold improvements and property	1,208,752	(145,290)	(180,837)	-	882,625
Prepaid expenses	47,013	24,405	-	-	71,418
Other assets	7,172	(1,420)	-	-	5,752
	711,315	(174,375)	(207,637)	-	329,303
<b>Tax loss carryforwards and unused tax credits</b>					
Tax loss carryforwards	(75,874)	(26,766)	-	-	(102,640)
Recoverable IMPAC	(12,269)	-	-	-	(12,269)
	(88,143)	(26,766)	-	-	(114,909)
	\$ 623,172	\$ (201,141)	\$ (207,637)	\$ -	\$ 214,394

The benefits of restated tax loss carryforwards for which the deferred ISR asset and tax credit, respectively, have been (in such case partially) recognized, can be recovered subject to certain conditions. Expiration dates and restated amounts as of December 31, 2017, are:

YEAR OF MATURITY	AMORTIZABLE LOSSES	COUNTRY
2023	\$ 71,246	Mexico
2024	88,044	Mexico
2025	319,613	Mexico
2026	195,404	Mexico
2027	76,478	Mexico
Losses entities abroad without due	51,605	Chile
Losses entities abroad with due	54,639	Colombia
	\$ 857,029	

## 21. EMPLOYEE RETIREMENT BENEFITS

Retirement plan is established with the objective of offering benefits in addition to and complementary to those provided by other public retirement plans.

The total expense recognized in profit or loss and other comprehensive income is \$37,147 in 2017.

The expense for employee benefits as of December 31, 2017, 2016 and 2015 was \$10,650,386, \$9,506,774 and \$8,177,096, respectively, not including the cost defined benefit described below.

The net cost for the period related to obligations derived from seniority premiums amounted to \$9,251, \$580 and \$6,041 in 2017, 2016 and 2015, respectively.

## 22. FINANCIAL INSTRUMENTS

### a. Capital risk management

The Entity manages its capital to ensure that the companies that it controls are able to continue operating as a going concern while they maximize the yield for their shareholders by streamlining the debt and equity balances. The Entity's general strategy has not changed in relation to 2016.

The Entity's capital structure consists of the net debt (the loans described in Note 17, compensated by cash balances and banks) and the Entity's capital (made up of issued capital stock, reserves and retained earnings, as shown in Note 23).

The Entity is not subject to external requirements to manage its capital.

The main purpose for managing the Entity's capital risk is to ensure that it maintains a solid credit rating and sound equity ratios to support its business and maximize value to its shareholders.

The Entity manages its capital structure and makes any necessary adjustments based on changes in economic conditions. In order to maintain and adjust its capital structure, the Entity can modify the dividend payments to the shareholders, reimburse capital to them or issue new shares.

For the years ended December 31, 2017, 2016 and 2015, there were no modifications to the objectives, policies or processes pertaining to capital management.

The following ratio is used by the Entity and by different rating agencies and banks to measure credit risk.

- Net Debt to EBITDA = Net Debt / EBITDA ltm.

At December 31, 2017, 2016 and 2015, the financial restriction established in the Entity's loan agreements relates to the Net Debt to EBITDA ratio for the last twelve months. The Entity complied with the established ratio.

### b. Financial instrument categories

	2017	2016	2015
<b>Financial assets</b>			
Cash and cash equivalents	\$ 1,540,403	\$ 2,547,842	\$ 1,195,814
Loans and accounts receivable at amortized cost	1,250,588	953,638	904,853
<b>Financial liabilities at amortized cost</b>			
Suppliers	3,960,806	3,901,972	3,013,091
Accounts payable and accrued liabilities	1,018,691	909,156	635,802
Current maturities of long-term debt	1,087,466	1,107,238	734,824
Current maturities of financial lease liabilities	6,799	6,799	7,190
Long-term debt, not including current maturities	6,693,454	9,743,806	5,018,722
Non-current financial lease liabilities	294,644	300,835	307,140
Debt instruments	6,980,452	3,988,845	6,479,795

### c. Objectives of managing financial risks

Alsea is mainly exposed to the following financial risks: (i) market (foreign currency and interest rate), (ii) credit and (iii) liquidity.

The Entity seeks to minimize the potential negative effects of the aforementioned risks on its financial performance by applying different strategies. The first involves securing risk coverage through derivative financial instruments.

Derivative instruments are only traded with well-established institutions and limits have been set for each financial institution. The Entity has the policy of not carrying out operations with derivative financial instruments for speculative purposes.

### d. Market risk

The Entity is exposed to market risks resulting from changes in exchange and interest rates. Variations in exchange and interest rates may arise as a result of changes in domestic and international economic conditions, tax and monetary policies, market liquidity, political events and natural catastrophes or disasters, among others.

Exchange fluctuations and devaluation or depreciation of the local currency in the countries in which Alsea participates could limit the Entity's capacity to convert local currency to US dollars or to other foreign currency, thus affecting their operations, results of operations and financial position.

The Entity currently has a risk management policy aimed at mitigating present and future risks involving those variables, which arise mainly from purchases of inventories, payments in foreign currencies and public debt contracted at a floating rate. The contracting of derivative financial instruments is intended to cover or mitigate a primary position representing some type of identified or associated risk for the Entity. Instruments used are merely for economic hedging purposes, not for speculation or negotiation.

The types of derivative financial instruments approved by the Entity for the purpose of mitigating exchange fluctuation and interest rate risk are as follows:

- USD/MXN exchange-rate forwards contracts
- USD/MXN exchange-rate options
- Interest Rate Swaps and Swaptions
- Cross Currency Swaps

Given the variety of possible derivative financial instruments for hedging the risks identified by the Entity, the Director of Corporate Finance is authorized to select such instruments and determine how they are to be operated.

#### e. Currency exchange risk management

The Entity carries out transactions in foreign currency and therefore it is exposed to exchange rate fluctuations. Exposure to exchange rate fluctuations is managed within the parameters of approved policies, using foreign currency forwards contracts.

Note 32 shows foreign currency positions at December 31, 2017, 2016 and 2015. It also shows the exchange rates in effect at those dates.

USD hedging and its requirements are determined based on the cash flow budgeted by the Entity, and it is aligned to the current Risk Management Policy approved by the Corporate Practices Committee, the General Director's office and the Administration and Financial Director's office. The policy is overseen by the Internal Audit Department.

The exchange rate risk expressed in a foreign currency (USD) is internally monitored on a weekly basis with the positions or hedges approximating maturity at market exchange rates. The agent calculating or valuing the derivative financial instruments is in all cases the counterparty designated under the master agreement.

The purpose of the internal review is to identify any significant changes in exchange rates that could pose a risk or cause the Entity to incur in non-compliance with its obligations. If a significant risk position is identified, the Corporate Treasury Manager informs the Corporate Financial Director's office.

The following table shows a quantitative description of exposure to exchange risk based on foreign currency forwards and options agreements contracted by the Entity in USD/MXN, in effect as of December 31, 2017, 2016 and 2015.

TYPE OF DERIVATIVE, SECURITY OR CONTRACT	POSITION	OBJECTIVE OF THE HEDGING	UNDERLYING / REFERENCE VARIABLE			NOTIONAL AMOUNT / FACE VALUE (THOUSANDS OF USD)			FAIR VALUE (THOUSANDS OF USD)			AMOUNTS OF MATURITIES (THOUSANDS OF USD)
			31/12/2017 CURRENT	31/12/2016 PREVIOUS	31/12/2015 PREVIOUS	31/12/2017 CURRENT	31/12/2016 PREVIOUS	31/12/2015 PREVIOUS	31/12/2017 CURRENT	31/12/2016 PREVIOUS	31/12/2015 PREVIOUS	
Forwards	Long	Economic	19,7354 USDMXN	20,73 USDMXN	17,34 USDMXN	50,050	56,125	14,000	\$ (46)	\$ (2,122)	\$ (306)	50,050
Options	Long	Economic	19,7354 USDMXN	20,73 USDMXN	17,34 USDMXN	75,950	42,100	14,500	\$ (1,016)	\$ 4,909	\$ (9)	75,950
Forwards	Short	Economic	NA	NA	1.09 EURUSD	-	-	900	\$ -	\$ -	\$ 0.1	-

#### 1. Foreign currency sensitivity analysis

At December 31, 2017, 2016 and 2015, the Entity has contracted hedging in order to purchase US dollars for the next 12 months, a total of \$126, \$98 and \$28 million dollars, respectively, at the average exchange rate of \$18.82, \$19.21 and \$16.26 pesos per US dollar, respectively the valuation is based on an average exchange rate of \$18.50, \$20.75 and \$16.50, pesos per US dollar, respectively, over the next 12 months as of December 31, 2017, 2016 and 2015. The initial price of currency derivatives is \$48.5, \$46.4 and \$7.6 million Mexican pesos, respectively, payable to the Entity.

Given the values and amounts of exchange rate hedges, management does not foresee a significant risk that could affect its results at the December 31, 2017 close or the obligations contracted under current operations that will expire during the next 12 months. The Entity does not match its net asset position with financial liabilities denominated in US dollars because it is not representative or material. The analysis shows only the effect on hedging for purchases of US dollars contracted and in effect at the December 31, 2017 closing.

Management considers that in the event of a stress scenario as the one

described above, the Entity's liquidity capacity would not be affected, there would be no negative effects on its operations, nor would compliance with the commitments assumed in relation to contracted derivative financial instruments be at risk.

## 2. Foreign currency forwards and options contracts

At December 31, 2017, 2016 and 2015, a total of 1,066, 534,220 and 212 derivative financial instrument operations (forwards and options) were carried out, respectively, for a total of 402.6, 68.6, and 41.5 million US dollars, respectively. The absolute value of the fair value of the derivative financial instruments entered into per quarter over the year does not comprise more than 5% of assets, liabilities or total consolidated capital, or otherwise 3% of the total consolidated sales for the last quarter. Therefore, the risk for the Entity of exchange rate fluctuations will have no negative effects, nor will it affect its capacity to carry out derivative financial instrument operations.

At December 31, 2017, 2016 and 2015, Alsea has contracted DFI's to purchase US dollars in the next twelve months for a total of approximately \$126, \$98 and \$28 million USD, at the average exchange rate of \$18.81, \$19.21 and \$16.26 pesos to the dollar, respectively.

At December 31, 2017, 2016 and 2015, the Entity had contracted the financial instruments shown in the table above.

## f. Interest rate risk management

The Entity faces certain exposure to the volatility of interest rates as a result of contracting bank and public stock exchange debt at fixed and variable interest rates. The respective risks are monitored and evaluated monthly on the basis of:

- Cash flow requirements
- Budget reviews
- Observation of the market and interest rate trends in the local market and in the countries in which Alsea operates (Mexico, Argentina, Chile and Colombia).
- Differences between negative and positive market rates

The aforementioned evaluation is intended to mitigate the Entity's risk concerning debt subject to floating rates or indicators, to streamline the respective prices and to determine the most advisable mix of fixed and variable rates.

The Corporate Treasury Manager is responsible for monitoring and reporting to the Administration and Financial Director any events or contingencies of importance that could affect the hedging, liquidity, maturities, etc. of DFI's. He in turn informs Alsea's General Management of any identified risks that might materialize.

The type of derivative products utilized and the hedged amounts are in line with the internal risk management policy defined by the Entity's Corporate Practices Committee, which contemplates an approach to cover foreign currency needs without the possibility to carry out speculative operations.

At the end of December 31, 2017, the Entity has a total debt of \$ 14,761 million pesos, this debt was contracted at a fixed rate and a variable rate, in addition to the above, it was decided to apply a risk management strategy in order to you mitigate the fluctuations of the interest rate staying in a mix of rates where 71% is fixed at a weighted rate of 7.43%, and 29% at a variable rate, this strategy has generated a positive result for the company.

### - Interest rate swap contracts

According to contracts for swaps of interest (Interest Rate Swap – ISR), the Entity agrees to exchange the difference between the amounts of the fixed and variable rates calculated on the agreed notional amount.

Such contracts allow the Entity to mitigate interest rate change risks on the fair value of the debt issued at a fixed interest rate and the exposure to cash flows on the debt issued at a variable interest rate. The starting price of the swaps of interest at the end of the period being reported is determined by discounting future cash flows using the curves at the end of the period being reported and the credit risk inherent to the contract, as described further on in these consolidated financial statements. The average interest rate is based on current balances at the end of the period being reported.

The following table shows a quantitative description of exposure to interest rate risk based on interest rate forwards and options agreements contracted by the Entity, in effect as of December 31, 2017, 2016 and 2015.

TYPE OF DERIVATIVE, SECURITY OR CONTRACT	POSITION	OBJECTIVE OF THE HEDGING	UNDERLYING / REFERENCE VARIABLE			NOTIONAL AMOUNT / FACE VALUE (USD)			FAIR VALUE (USD)			AMOUNTS OF EXPIRATION (THOUSANDS OF USD)
			31/12/2017 CURRENT	31/12/2016 PREVIOUS	31/12/2015 PREVIOUS	31/12/2017 CURRENT	31/12/2016 PREVIOUS	31/12/2015 PREVIOUS	31/12/2017 CURRENT	31/12/2016 PREVIOUS	31/12/2015 PREVIOUS	
IRS Plain Vanilla	Long	Coverage	7.62% - TIIE 28 d	6.11% - TIIE 28 d	3.34% - TIIE 28 d	199,046	119,011	99,158	\$ 20,650	\$ 20,216	\$ 5,650	199,046
IRS Plain Vanilla	Long	Economic	7.62% - TIIE 28 d	6.11% - TIIE 28 d	3.34% - TIIE 28 d	113,337	37,928	15,420	\$ (5,160)	\$ (2,295)	\$ 32	113,337
Knock Out IRS	Long	Economic	7.62% - TIIE 28 d	6.11% - TIIE 28 d	3.34% - TIIE 28 d	-	-	2,941	\$ -	\$ -	\$ 11	-
Limited IRS	Long	Economic	7.62% - TIIE 28 d	6.11% - TIIE 28 d	3.34% - TIIE 28 d	-	10,453	2,941	\$ -	\$ -	\$ 15	-
Capped IRS	Long	Economic	7.62% - TIIE 28 d	6.11% - TIIE 28 d	3.34% - TIIE 28 d	35,469	14,905	2,553	\$ 402	\$ 138.6	\$ 0.4	35,469
IRS Plain Vanilla	Long	Coverage	7.62% - TIIE 28 d	EURIBOR 1M	EURIBOR 1M	60,161	39,427	87,391	\$ (189)	\$ (27)	\$ (549)	60,161

## 1. Analysis of interest rate sensitivity

The following sensitivity analysis has been determined on the basis of the exposure to interest rates of derivative instruments and of non-derivative instruments at the end of the period being reported. In the case of variable rate liabilities, an analysis is prepared assuming that the amount of the liability held at the end of the period being reported has been the amount of the liability throughout the year.

- The first stress scenario considered by the Entity's management is a 200 bps increase in the 28-day TIIE reference rate while the rest of the variables remain constant. With the mix in the hedging portfolio of plain vanilla interest rate swaps and the swaptions contracted at the December 31, 2017 close, the increase in financial costs is of approximately \$159.4 million. The above effect arises because the barriers protecting the increase in the interest rates are exceeded, which leaves the Entity exposed to market rates, with approximately 46% coverage of the debt.
- A 150 bps increase in the 28-day TIIE rate represents an increase in the financial cost of approximately \$221.4 million, which poses no risk to the Entity's liquidity nor gives rise to a negative effect on the business's operations or in assuming commitments for contracting interest rate derivative financial instruments.
- Lastly, the scenario with a 100 bps increase in the 28-day TIIE reference rate would have a positive effect on the financial cost of approximately \$147.6 million.

The above scenarios were performed on bank and market debt contracted in Mexican pesos with floating reference rate TIIE 28 days, which represents about 80% of the total debt contracted by the Bank. The bank debt denominated in euros is covered at a fixed rate by 70%, so an increase or decrease in rates would not represent a material or significant risk to the company, offsetting effectively in the starting price and value the underlying liabilities.

## g. Credit risk management

Credit risk refers to the uncertainty of whether one or several of the counterparties will comply with their contractual obligations, which would result in a financial loss for the Entity. The Entity has adopted the policy of only operating with solvent institutions and obtaining sufficient collateral, when deemed necessary, as a way to mitigate the risk of financial loss caused by non-compliance.

The Entity has identified in its portfolio a credit risk among its derivative financial instruments designed as cash flow hedges, since are measured at fair value.

The Entity's exposure and the credit ratings of its counterparties are supervised on a regular basis. The maximum credit exposure levels allowed are established in the Entity's risk management internal policies. Credit risk over liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings issued by accepted rating agencies.

In order to reduce to a minimum, the credit risk associated to counterparties, the Entity contracts its financial instruments with domestic and foreign institutions that are duly authorized to engage in those operations and which form part of the Mexican Financial System.

With respect to derivative financial instruments, the Entity signs a standard agreement approved by the International Swaps and Derivatives Association Inc. with each counterparty along with the standard confirmation forms for each operation. Additionally, the Entity signs bilateral guarantee agreements with each counterparty that establish the margin, collateral and credit line policies to be followed. Such agreements, commonly known as "Credit Support Annexes", establish the credit limits offered by credit institutions that would apply in the event of negative scenarios or fluctuations that might affect the fair value of open positions of derivative financial instruments. Such agreements establish the margin calls for instances in which credit facility limits are exceeded.

In addition to the bilateral agreements signed further to the ISDA master agreement, known as Credit Support Annexes (CSA), the Entity monitors the favorable or negative fair value on a monthly basis. Should the Entity incur a positive result, and that result be considered material in light of the amount, a CDS could be contracted to reduce the risk of breach by counterparties.

The methodologies and practices generally accepted in the market and which are applied by the Entity to quantify the credit risk related to a given financial agent are detailed below.

- 1.- Credit Default Swap, the credit risk is quantified based on the quoted market price. The CDS is the additional premium that an investor is willing to pay to cover a credit position, meaning that the risk quantification is equal to this premium. This practice is utilized as long as quoted CDS are available on the market.
- 2.- Issuance Credit Spread, if issuances are available for quotation on different financial markets, the credit risk can be quantified as the difference between the internal rate of return of the bonds and the risk-free rate.
- 3.- Comparable items, if the risk cannot be quantified by using the above methodologies, the use of comparable items is generally accepted; i.e., the use of entities or bonds of the sector that the company wishes to analyze as a reference.

The Entity has the policy of monitoring the volume of operations contracted with each institution, in order to avoid margin calls and mitigate credit risks with counterparties.

At the December 31, 2017, 2016 and 2015 closing, the Entity has incurred in 37 margin calls just in 2017, and holds 12 million US dollars securities pledged as a guarantee by a counterparty with which it may have carried out interest rate hedging operations.

At December 31, 2017, 2016 and 2015, the Entity has recorded no breaches to the agreements signed with different financial entities for exchange rate hedging operations.

The Entity's maximum exposure to credit risk is represented by the carrying value of its financial assets. At December 31, 2017, 2016 and 2015, that risk amounts to \$2,790,991, \$3,501,480 and \$2,100,657, respectively.

The credit risk generated by the management of the Entity's temporary investments reflects its current investment policy, which has the following objectives: I) enhance resource efficiency, and II) mitigate the credit risk. In order to fulfill these objectives, certain guidelines and maximum amounts were established for counterparties, instruments and periods within the Entity's policies.

All transactions performed in Mexican pesos and foreign currency are supported by an outline brokerage agreement duly executed by both parties with regulated institutions belonging to the Mexican Financial System, which have the guarantees required by the company and recognized credit ratings. The only instruments authorized for temporary investments are those issued by the federal government, corporate and banking institutions under the repurchase modality.

As the Entity does not consider its credit risk to be material or significant, it does not perform a measurement for temporary investments.

#### h. Liquidity risk management

The ultimate responsibility for managing liquidity lies in the Financial Director, for which purpose the Entity has established policies to control and follow up on working capital, thus making it possible to manage the Entity's short-term and long-term financing requirements. In keeping this type of control, cash flows are prepared periodically to manage risk and maintain proper reserves, credit lines are contracted and investments are planned.

The Entity's main source of liquidity is the cash earned from its operations.

The following table describes the contractual maturities of the Entity's financial liabilities considering agreed payment periods. The table has been designed based on undiscounted, projected cash flows and financial liabilities considering the respective payment dates. The table includes the projected interest rate flows and the capital disbursements made towards the financial debt included in the consolidated statements of financial position. If interest is agreed at variable rates, the undiscounted amount is calculated based on the interest rate curves at the end of the period being reported. Contractual maturities are based on the minimum date on which the Entity must make the respective payments.

AS OF DECEMBER 31, 2017	AVERAGE EFFECTIVE INTEREST RATE	UP TO 1 YEAR	UP TO 2 YEARS	UP TO 3 YEARS	UP TO 4 YEARS	UP TO 5 YEARS OR MORE	TOTAL
Long-term debt	8.25%	\$ 1,744,175	\$ 3,998,021	\$ 2,158,034	\$ 781,261	\$ 772,635	\$ 9,454,126
Debt instruments	8.65%	589,150	589,150	3,569,602	337,600	4,337,600	9,423,102
Financial leasing	4.00%	32,398	32,398	32,398	32,398	508,000	637,592
Derivatives		48,516	-	-	-	-	48,516
Suppliers		3,960,806	-	-	-	-	3,960,806
Accounts payable <sup>(1)</sup>		1,018,691	-	-	-	-	1,018,691
<b>Total</b>		<b>\$ 7,393,736</b>	<b>\$ 4,619,569</b>	<b>\$ 5,760,034</b>	<b>\$ 1,151,259</b>	<b>\$ 5,618,235</b>	<b>\$ 24,542,833</b>

AS OF DECEMBER 31, 2016	AVERAGE EFFECTIVE INTEREST RATE	UP TO 1 YEAR	UP TO 2 YEARS	UP TO 3 YEARS	UP TO 4 YEARS	UP TO 5 YEARS OR MORE	TOTAL
Long-term debt	6.76%	\$ 1,623,664	\$ 1,410,100	\$ 3,239,806	\$ 1,534,114	\$ 5,045,053	\$ 12,852,737
Debt instruments	7.16%	283,920	283,920	283,920	3,128,287	1,367,185	5,347,232
Financial leasing	4.00%	32,398	32,398	32,398	32,398	536,998	666,590
Derivatives		44,403	-	-	-	-	44,403
Suppliers		3,901,972	-	-	-	-	3,901,972
Accounts payable <sup>(1)</sup>		909,156	-	-	-	-	909,156
<b>Total</b>		<b>\$ 6,795,513</b>	<b>\$ 1,726,418</b>	<b>\$ 3,556,124</b>	<b>\$ 4,694,799</b>	<b>\$ 6,949,236</b>	<b>\$ 23,722,090</b>

(1) Starting 2016 the new payment term to suppliers is 90 days; the Entity signed financial factoring contracts with financial institutions that allows suppliers to collect from the financial institutions the invoices approved by the Entity before the payment terms matures and Alsea will pay the financial institution at maturity of the payment term. These transactions do not generate a cost to Alsea and are classified as accounts payable since are consider as a substitute creditor.

AS OF DECEMBER 31, 2015	AVERAGE EFFECTIVE INTEREST RATE	UP TO 1 YEAR	UP TO 2 YEARS	UP TO 3 YEARS	UP TO 4 YEARS	UP TO 5 YEARS OR MORE	TOTAL
Long-term debt	5.49%	\$ 1,000,986	\$ 1,048,079	\$ 717,767	\$ 2,669,308	\$ 1,471,296	\$ 6,907,436
Debt instruments	4.70%	321,818	331,341	2,772,813	222,647	4,481,332	8,129,951
Financial leasing	4.00%	32,789	32,789	32,789	32,789	565,089	696,245
Derivatives		97,806	-	-	-	-	97,806
Suppliers		3,013,091	-	-	-	-	3,013,091
Accounts payable		635,802	-	-	-	-	635,802
<b>Total</b>		<b>\$ 5,102,292</b>	<b>\$ 1,412,209</b>	<b>\$ 3,523,369</b>	<b>\$ 2,924,744</b>	<b>\$ 6,517,717</b>	<b>\$ 19,480,331</b>

**i. Fair value of financial instruments**

This notes provides information on the manner in which the Entity determines the fair values of the different financial assets and liabilities.

Some of the Entity’s financial assets and liabilities are valued at fair value at each reporting period. The following table contains information on the procedure for determining the fair values of financial assets and financial liabilities (specifically the valuation technique(s) and input data used).

FINANCIAL ASSETS/LIABILITIES	FAIR VALUE (1)(2) FIGURES IN THOUSANDS OF USD			FAIR VALUE HIERARCHY
	12/31/2017	12/31/2016	12/31/2015	
1) Forwards and currency options agreements	\$ (46)	\$ 2,787	\$ (315)	Level 2
Valuation technique(s) and main input data	<p>Plain vanilla forwards are calculated based on discounted cash flows on forward exchange type bases. The main input data are the Spot, the risk-free rates in MXN and USD + a rate that reflects the credit risk of counterparties.</p> <p>In the case of options, the methods used are Black and Scholes and Montecarlo digital and/or binary algorithms.</p>			
2) Interest rate swaps	\$ 15,703	\$ 18,032	\$ 5,159	Level 2
Valuation technique(s) and main input data	<p>Discounted cash flows are estimated based on forwards interest rates (using the observable yield curves at the end of the period being reported) and the contractual rates, discounted at a rate that reflects the credit risk of the counterparties.</p>			

During the period there were no transfers between level 1 and 3

- (1) The fair value is presented from a bank’s perspective, which means that a negative amount represents a favorable result for the Entity.
- (2) The calculation or valuation agent used is the same counterparty or financial entity with whom the instrument is contracted, who is asked to issue the respective reports at the month-end closing dates specified by the Entity.
- (3) Techniques and valuations applied are those generally used by financial entities, with official price sources from banks such as Banxico for exchange rates, Proveedor Integral de Precios (PIP) and Valmer for supply and databases of rate prices, volatility, etc.

In order to reduce to a minimum, the credit risk associated with counterparties, the Entity contracts its financial instruments with domestic and foreign institutions that are duly authorized to engage in those operations.

In the case of derivative financial instruments, a standard contract approved by the International Swaps and Derivatives Association Inc. (“ISDA”) is executed with each counterparty; the standard confirmation forms required for each transaction are also completed.

Likewise, bilateral guarantee agreements are executed with each counterparty to determine policies for the margins, collateral and credit lines to be granted.

This type of agreement is usually known as a “Credit Support Annex”; it establishes the credit limits that financial institutions grant to the company and which are applicable in the event of negative scenarios or fluctuations that affect the fair value of the open positions of derivative financial instruments. These agreements establish the margin calls to be implemented if credit line limits are exceeded.

Aside from the bilateral agreements attached to the ISDA outline agreement known as the Credit Support Annex (CSA), the Entity monthly monitors the fair value of payable or receivable amounts. If the result is positive for the Entity and is considered relevant due to its amount, a CDS can be contracted to reduce the risk of counterparty noncompliance.

The Entity has the policy of monitoring the number of operations contracted with each of these institutions so as to avoid margin calls and mitigate the counterparty credit risk.

At December 31, 2017, 2016 and 2015, the Entity has not received any margin calls and does not have any securities given as a guarantee with counterparties as interest rate hedges. Furthermore, it did not record any instances of noncompliance with the contracts executed with different financial institutions for operations involving interest rate hedges.

**j. Fair value of financial assets and liabilities that are not valued at fair value on a recurring basis (but that require fair value disclosure)**

Except for the matter described in the following table, Management considers that the carrying values of financial assets and liabilities recognized at amortized cost in the consolidated financial statements approximate their fair value:

FINANCIAL LIABILITIES	12/31/2017		12/31/2016		12/31/2015	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<b>Financial liabilities maintained at amortized cost:</b>						
Suppliers	\$ 3,960,806	\$ 3,960,806	\$ 3,901,972	\$ 3,901,972	\$ 3,013,091	\$ 3,013,091
Accounts payable and accrued liabilities	1,018,691	1,018,691	909,156	909,156	635,802	635,802
Bank loans	1,087,466	1,095,114	1,107,238	1,115,556	734,824	766,303
Current maturities of financial lease liabilities	6,799	6,799	6,799	6,799	7,190	7,190
Long-term bank loans	6,693,454	6,693,454	9,743,806	9,743,806	5,018,722	5,018,722
Non-current financial lease liabilities	294,644	294,644	300,835	300,835	307,140	307,140
Debt instruments	6,980,452	6,843,439	3,988,845	4,037,222	6,479,795	6,539,804
<b>Total</b>	<b>\$ 20,042,312</b>	<b>\$ 19,912,947</b>	<b>\$ 19,958,651</b>	<b>\$ 20,015,346</b>	<b>\$ 16,196,564</b>	<b>\$ 16,288,052</b>

**FINANCIAL LIABILITIES 2017**

**LEVEL 1**

**Financial liabilities maintained at amortized cost:**

Bank loans	\$ 1,087,466
Current maturities of financial lease liabilities	6,799
Long-term bank loans	6,693,454
Non-current financial lease liabilities	294,644
Debt instruments	6,980,452
<b>Total</b>	<b>\$ 15,062,815</b>

**FINANCIAL LIABILITIES 2016**

**LEVEL 1**

**Financial liabilities maintained at amortized cost:**

Bank loans	\$ 1,107,238
Current maturities of financial lease liabilities	6,799
Long-term bank loans	9,743,806
Non-current financial lease liabilities	300,835
Debt instruments	3,988,845
<b>Total</b>	<b>\$15,147,523</b>

**FINANCIAL LIABILITIES 2015**

**LEVEL 1**

**Financial liabilities maintained at amortized cost:**

Bank loans	\$ 734,824
Current maturities of financial lease liabilities	7,190
Long-term bank loans	5,018,722
Non-current financial lease liabilities	307,140
Debt instruments	6,479,795
<b>Total</b>	<b>\$12,547,671</b>

**Valuation**

**a) Description of valuation techniques, policies and frequency:**

The derivative financial instruments used by Alsea (forwards and swaps) are contracted to reduce the risk of adverse fluctuations in exchange and interest rates. Those instruments require the Entity to exchange cash flows at future fixed dates on the face value or reference value and are valued at fair value.

**b) Liquidity in derivative financial operations:**

1. The resources used to address financial instrument requirements will derive from the resources generated by the issuer.
2. External sources of liquidity: No external sources of financing will be used to address requirements pertaining to derivative financial instruments.

**23. STOCKHOLDERS' EQUITY**

Following is a description of the principal features of the stockholders' equity accounts:

**a. Capital stock structure**

The movements in capital stock and premium on share issue are shown below:

	NUMBER OF ACTIONS	THOUSANDS OF PESOS SOCIAL CAPITAL	PREMIUM IN ISSUANCE OF SHARES
Figures as of January 1, 2015	837,622,524	\$ 478,271	\$ 8,613,587
Placement of actions	(136,080)	(68)	-
Figures as of December 31, 2015	837,486,444	478,203	8,613,587
Placement of actions	(3,207,245)	(1,604)	12,133
Figures as of December 31, 2016	834,279,199	476,599	8,625,720
Placement of actions	(1,461,008)	(730)	-
Figures as of December 31, 2017	832,818,191	\$ 475,869	\$ 8,625,720

As discussed in Note 19, the Entity has the put option of acquiring the non-controlling interest of Grupo Zena, this effect resulted in the application of a charge of \$2,673,053 to net worth.

In June 2017, Alsea declared a dividend payment of \$570,234 with a charge to the after-tax earnings account, which is to be paid against net earnings at \$0.68 (zero pesos sixty and eight cents) per share. The Treasury society must make payment on May 31, 2017 for \$567,763.

In April 2016, Alsea declared a dividend payment of \$645,706 with a charge to the after-tax earnings account, which is to be paid against net earnings at \$0.77 (zero pesos fifty cents) per share. The Treasury society must make payment on May 13, 2016 for \$644,771.

In April 2015, Alsea declared a dividend payment of \$419,289 with a charge to the after-tax earnings account, which is to be paid against net earnings at \$0.50 (zero pesos fifty cents) per share. The Treasury society must make payment on May 29, 2015 for \$419,173.

The fixed minimum capital with no withdrawal rights is comprised of Class I shares, while the variable portion is represented by Class II shares, and it must in no case exceed 10 times the value of the minimum capital with no withdrawal rights.

The National Banking and Securities Commission has established a mechanism that allows the Entity to acquire its own shares in the market, for which purpose a reserve for repurchase of shares must be created and charged to retained earnings, which Alsea has created as of December 31, 2015.

Total repurchased shares must not exceed 5% of total issued shares; they must be replaced in no more than one year, and they are not considered in the payment of dividends.

The premium on the issuance of shares is the difference between the payment for subscribed shares and the par value of those same shares, or their notional value (paid-in capital stock divided by the number of outstanding shares) in the case of shares with no par value, including inflation, at December 31, 2012. Available repurchased shares are reclassified to contribute capital.

#### b. Stockholders' equity restrictions

- I. 5% of net earnings for the period must be set aside to create the legal reserve until it reaches 20% of the capital stock. At December 31, 2017, 2016 and 2015, the legal reserve amounted to \$100,736, which amount does not reach the required 20%.
- II. Dividends paid from retained earnings are not subject to ISR if paid from the after-tax earnings account (CUFIN), and 30% must be paid on the excess, i.e., the result arrived at by multiplying the dividend paid by a factor of 1.0667. The tax accrued on the dividend payment not arising from the CUFIN must be paid by the Entity and may be credited against corporate IT in the following two years.

## 24. NON-CONTROLLING INTEREST

### a. Following is a detail of the non-controlling interest.

	AMOUNT
Balances at January 1, 2015	\$ 833,213
Equity in results for the year ended December 31, 2015	51,536
Other movements in capital	10,156
Capital contributions in subsidiaries	31,380
Acquisition of the non-controlling interest of GASA	(26,365)
Ending balance at December 31, 2015	899,920
Equity in results for the year ended December 31, 2016	130,019
Capital Reimbursement of Food Project, S.L. <sup>(1)</sup>	(45,178)
Other movements in capital	28,687
Ending balance at December 31, 2016	1,013,448
Equity in results for the year ended December 31, 2017	162,651
Capital Reimbursement of Food Project, S.L.	(159,616)
Capital contributions in subsidiaries	42,682
Other movements in capital	62,401
Ending balance at December 31, 2017	\$ 1,121,566

(1) On January 20, 2016, Food Project, S.L., decreed a capital repayment of 8,000 thousand euros, granted in proportion to the value of each of the social shares in which the share capital of the entity is divided, Resulting in a decrease in non-controlling interest in the amount of \$45,178.

### b. Acquisition of the non-controlling interest of Grupo Amigos de San Ángel

In 2015, the Entity acquired the 10.23% that it did not hold in Grupo Amigos de San Angel, S.A. de C.V. (GASA), a subsidiary of Alsea that operates in the different Italiani's stores in Mexico.

For consolidation purposes, the transaction did not constitute a change in control over GASA, prior to the purchase of the non-controlling interest. As the Entity had been previously consolidating the subsidiary, such accounting remained unchanged.

The change of interest in GASA by Alsea upon acquisition of the non-controlling interest (from 89.77% to 100%) qualified as an equity transaction.

Accordingly, the difference between the carrying value of the non-controlling interest at the time of acquisition and the fair value of amount paid was recorded directly in stockholders' equity.

The accounting entry gave rise to a decrease in the non-controlling interest of \$26,365.

c. Following is the detail of the Non-Controlling interest of the main subsidiaries of the Entity:

SUBSIDIARY	COUNTRY	PERCENTAGES OF THE NON-CONTROLLING INTEREST			INCOME (LOSS) ATTRIBUTABLE TO THE NON-CONTROLLING INTEREST			ACCUMULATED NON-CONTROLLING INTEREST		
		31/12/2017	31/12/2016	31/12/2015	31/12/2017	31/12/2016	31/12/2015	31/12/2017	31/12/2016	31/12/2015
Food Service Project, S.L. (Grupo Zena)	Spain	28.24%	28.24%	28.24%	\$ 192,660	\$ 163,838	\$ 86,131	\$ 978,346	\$ 866,843	\$ 1,187,814
Operadora de Franquicias Alsea, S.A. de C.V.	Mexico	20.00%	20.00%	20.00%	(18,915)	(30,924)	(28,676)	68,446	86,042	116,966
Estrella Andina, S.A.S.	Colombia	30.00%	30.00%	30.00%	(6,606)	(2,705)	(5,480)	62,236	40,193	35,157

## 25. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the period attributable to the controlling interest holders of ordinary capital by the average weighted number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the net profit attributable to controlling interest holders of ordinary capital (after adjusting for interest on the convertible preferential shares, if any) by the average weighted ordinary shares outstanding during the year plus average weighted ordinary shares issued when converting all potentially ordinary diluted shares to ordinary shares. For the years ended December 31, 2017, 2016 and 2015, the Entity has no potentially dilutive shares, for which reason diluted earnings per share is equal to basic earnings per share.

The following table contains data on income and shares used in calculating basic and diluted earnings per share:

	2017	2016	2015
Net profit (in thousands of Mexican pesos):			
Attributable to shareholders	\$ 1,089,498	\$ 996,471	\$ 981,215
Shares (in thousands of shares):			
Weighted average of shares outstanding	832,818	834,279	837,486
Basic and diluted net income per share of continuous and discontinued operations (cents per share)	\$ 1.31	\$ 1.19	\$ 1.17
Basic and diluted net income per share of continuous operations (cents per share)	\$ 1.31	\$ 1.19	\$ 1.17

## 26. REVENUES

	2017	2016	2015
Revenues from the sale of goods	\$ 41,378,982	\$ 36,682,433	\$ 31,471,313
Services	382,970	652,106	487,346
Royalties	767,169	367,328	329,717
Total	\$ 42,529,121	\$ 37,701,867	\$ 32,288,376

## 27. COST OF SALES

The costs and expenses included in other operating costs and expenses in the consolidated statements of income are as follows:

	2017	2016	2015
Food and beverage of costs	\$ 12,467,682	\$ 11,406,404	\$ 9,769,021
Royalties of costs	145,000	146,036	133,471
Other costs	310,507	227,190	246,784
Total	\$ 12,923,189	\$ 11,779,630	\$ 10,149,276

## 28. OTHER OPERATING COSTS AND EXPENSES

	2017	2016	2015
Employee benefits	\$ 10,650,386	\$ 9,506,774	\$ 8,177,096
Advertising	1,614,118	1,449,137	1,211,830
Services	2,033,239	1,705,631	1,637,801
Royalties	1,389,122	1,183,173	990,348
Pre-operative	178,108	122,959	109,802
Other	3,770,159	3,414,422	2,803,744
Total	\$ 19,635,132	\$ 17,382,096	\$ 14,930,621

## 29. OTHER (INCOME) EXPENSES, NET

It is integrated as follows:

	2017	2016	2015
Legal expenses	\$ 42,505	\$ 53,487	\$ 25,019
Loss on fixed asset disposals, net	79,378	3,885	40,227
PTU on tax base	29,691	23,347	6,371
Inflation, interest on tax refund and other income not tax	(52,534)	26,517	(32,649)
Gain on disposal of investment of associated - Grupo Axo	(608,817)	-	-
Other income, net	(17,571)	3,415	16,698
Total	\$ (527,348)	\$ 110,651	\$ 55,666

## 30. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

### Officer compensations and benefits

The total amount of compensation paid by the Entity to its main advisors and officers for the nine-month period ended December 31, 2017, 2016 and 2015 was of approximately \$183,820, \$231,750 and \$121,800, respectively. This amount includes emoluments determined by the General Assembly of Shareholders of the Entity for the performance of their positions during said fiscal year, as well as salaries and salaries.

The Entity continuously reviews salaries, bonuses and other compensation plans in order to ensure more competitive employee compensation conditions.

## 31. FINANCIAL INFORMATION BY SEGMENTS

The Entity is organized into four large operating divisions comprised of sales of food and beverages in Mexico and South America (LATAM – Argentina, Chile, Colombia and Brazil) and distribution services, all headed by the same management.

The accounting policies of the segments are the same as those of the Entity's described in Note 3.

### The Food and Beverages segments in which Alsea in Mexico, Spain and Latin America (LATAM) participates are as follows:

Fast Food: This segment has the following features: i) fixed and restricted menus, ii) food for immediate consumption, iii) strict control over individual portions of each ingredient and finished product, and iv) individual packages, among others. This type of segment can be easily accessed and therefore penetration is feasible at any location.

Coffee Shops: Specialized shops where coffee is the main item on the menu. The distinguishing aspects are top quality services and competitive prices, and the image/ambiance is aimed at attracting all types of customers.

Casual Dining: This segment comprises service restaurants where orders are taken from customers and there are also to-go and home delivery services. The image/ambiance of these restaurants is aimed at attracting all types of customers. This segment covers fast food and gourmet restaurants. The main features of casual dining stores are i) easy access, ii) informal dress code, iii) casual atmosphere, iv) modern ambiance, v) simple decor, vi) top quality services, and vii) reasonable prices. Alcoholic beverages are usually sold at those establishments.

Restaurant – cafeteria - (Vips): Is a familiar-type segment and its main characteristic is the hospitality, and be close to the client. These restaurants have a wide variety of menus.

Fast Casual Dining: This is a combination of the fast food and casual dining segments.

The distribution and Production segment is defined as follows:

Distribuidora e Importadora Alsea, S.A. de C.V. (DIA) specializes in domestic purchase, importation, transporting, storage and distribution of frozen, refrigerated and dry food products to supply all Domino's Pizza, Starbucks, Chili's Grill & Bar, P.F. Chang's China Bistro, Vips, El Portón, La Finca and Italianni's establishments in Mexico.

Additionally, DIA is responsible for preparing and distributing pizza dough to the entire Domino's Pizza System in Mexico.

Panadería y Alimentos para Food Service, S.A. de C.V. This plant produces sandwiches and bread that are supplied to Starbucks and the other Alsea Brands. The business model contemplates a central plant located in Lerma, in the State of Mexico, where the Pastry and Bakery products and sandwiches are prepared.

The definition of the operating segments is based on the financial information provided by General Management and it is reported on the same bases as those used internally by each operating segment. Likewise, the performance evaluations of the operating segments are periodically reviewed.

Information on the segments for the years ended December 31, 2017, 2016 and 2015 is as follows: (figures in millions of pesos).

Figures in millions of pesos as of December 31, division:

	FFOOD AND BEV- ERAGES MEXICAN SEGMENT			FOOD AND BEVER- AGES LATAM SEGMENT			FOOD AND BEV- ERAGES SPAIN DIVISION			DISTRIBUTION AND PRODUCTION SEGMENT			ELIMINATIONS			CONSOLIDATED		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Number of units	2346	2215	2092	543	481	395	549	499	467	-	-	-	-	-	-	3438	3195	2954
Income																		
From third parties	\$ 22,545	\$ 20,552	\$ 18,629	\$ 10,283	\$ 8,124	\$ 6,718	\$ 8,570	\$ 7,591	\$ 5,674	\$ 1,046	\$ 1,398	\$ 1,235	\$ 85	\$ 37	\$ 32	\$ 42,529	\$ 37,702	\$ 32,288
Between segments	88	76	43	-	-	-	-	-	-	5,980	5,859	5,139	(6,068)	(5,935)	(5,182)	-	-	-
Income	22,633	20,628	18,672	10,283	8,124	6,718	8,570	7,591	5,674	7,026	7,257	6,374	(5,983)	(5,898)	(5,150)	42,529	37,702	32,288
Costs	7,747	7,010	6,244	3,179	2,566	2,132	2,352	2,076	1,581	5,622	6,029	5,344	(5,977)	(5,901)	(5,152)	12,923	11,780	10,149
Operating costs	10,112	9,157	8,416	5,541	4,331	3,564	4,492	4,015	3,011	648	569	448	-	(26)	(21)	20,793	18,046	15,418
Adjusted EBITDA	4,774	4,461	4,012	1,563	1,227	1,022	1,726	1,500	1,082	756	659	582	(6)	29	23	8,813	7,876	6,721
Adjusted EBITDA margin	21.1%	21.6%	21.5%	15.2%	15.1%	15.2%	20.1%	19.8%	19.1%	10.8%	9.1%	9.1%	0.1%	(0.5%)	(0.4%)	20.7%	20.9%	20.8%
Depreciation and amortization	1,701	1,544	1,283	463	331	237	323	300	239	58	75	72	207	139	117	2,752	2,389	1,948
Non-operating expenses	1,266	1,264	1,267	862	641	539	452	437	347	306	208	220	(539)	172	45	2,347	2,722	2,418
Utility operation	1,807	1,653	1,462	238	255	246	951	763	496	392	376	290	326	(282)	(139)	3,714	2,765	2,355
Interest paid																1,307	881	711
Earned interests																(45)	(38)	(30)
Other financial expenses																365	334	179
																2,087	1,588	1,495
Participation in associates																-	68	28
Income taxes																835	530	490
Consolidated net income for the year																1,252	1,126	1,033
Noncontrolling interest																163	130	52
Majority net income																\$ 1,089	\$ 996	\$ 981

	FOOD AND BEV- ERAGES MEXICAN SEGMENT			FOOD AND BEV- ERAGES LATAM SEGMENT			FOOD AND BEV- AGES SPAIN SEGMENT			DISTRIBUTION AND PRODUCTION			ELIMINATIONS			CONSOLIDATED		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Assets	\$ 20,656	\$ 18,590	\$ 18,205	\$ 5,135	\$ 3,772	\$ 2,605	\$ 5,265	\$ 4,441	\$ 3,437	\$ 2,650	\$ 2,729	\$ 2,303	\$ 1,071	\$ 3,082	\$ 1,940	\$ 34,777	\$ 32,614	\$ 28,490
Investment in productive assets																		
Investment in associates	-	-	-	-	-	-	-	-	-	-	-	-	1,036	923	-	1,036	923	923
Investment in Fixed Assets and Intangible	2,030	2,312	2,072	985	577	417	760	787	476	902	280	29	205	593	446	4,882	4,549	3,440
Total assets	\$ 22,686	\$ 20,902	\$ 20,277	\$ 6,120	\$ 4,349	\$ 3,022	\$ 6,025	\$ 5,228	\$ 3,913	\$ 3,552	\$ 3,009	\$ 2,332	\$ 1,276	\$ 4,711	\$ 3,309	\$ 39,659	\$ 38,199	\$ 32,853
Total liability	\$ 8,338	\$ 6,885	\$ 7,270	\$ 4,244	\$ 3,080	\$ 2,566	\$ 4,466	\$ 4,063	\$ 3,805	\$ 2,237	\$ 1,898	\$ 1,477	\$ 9,771	\$ 12,145	\$ 7,887	\$ 29,056	\$ 28,071	\$ 23,005

### 32. FOREIGN CURRENCY POSITION

Assets and liabilities expressed in US dollars, shown in the reporting currency at December 31, 2017, 2016 and 2015, are as follows:

	THOUSANDS OF DOLLARS	THOUSANDS OF DOLLARS	THOUSANDS OF DOLLARS
	2017	2016	2015
Assets	\$ 1,575,514	\$ 1,776,641	\$ 1,300,457
Liabilities	(6,307,317)	(5,891,935)	(4,379,546)
Net monetary liability position	\$ (4,731,803)	\$ (4,115,294)	\$ (3,079,089)

The exchange rate to the US dollar at December 31, 2017, 2016 and 2015 was \$19.74, \$20.66 and \$17.25, respectively. At March 9, 2018, date of issuance of the consolidated financial statements, the exchange rate was \$18.71 to the US dollar.

The exchange rates used in the different conversions to the reporting currency at December 31, 2017, 2016 and 2015 and at the date of issuance of these consolidated financial statements are shown below:

COUNTRY OF ORIGIN	CURRENCY	CLOSING EXCHANGE RATE	ISSUANCE MARCH 9, 2018
2017			
Argentina	Argentinian peso (ARP)	1.0509	0.9191
Chile	Chilean peso (CLP)	0.0321	0.0308
Colombia	Colombian peso (COP)	0.0066	0.0065
Spain	Euro (EUR)	23.6587	23.0435

COUNTRY OF ORIGIN	CURRENCY	CLOSING EXCHANGE RATE	ISSUE MARCH 28, 2017
2016			
Argentina	Argentinian peso (ARP)	1.3012	1.2154
Chile	Chilean peso (CLP)	0.0308	0.0283
Colombia	Colombian peso (COP)	0.0067	0.0064
Spain	Euro (EUR)	21.7323	20.4747

COUNTRY OF ORIGIN 2015	CURRENCY	CLOSING EXCHANGE RATE	ISSUE MARCH 31, 2016
Argentina	Argentinian peso (ARP)	1.3408	1.1862
Chile	Chilean peso (CLP)	0.0244	0.0252
Colombia	Colombian peso (COP)	0.0054	0.0057
Spain	Euro (EUR)	18.8344	19.5332

In converting the figures, the Entity used the following exchange rates:

FOREIGN TRANSACTION	COUNTRY OF ORIGIN	CURRENCY RECORDING	FUNCTIONAL	PRESENTATION
Fast Food Sudamericana, S.A.	Argentina	ARP	ARP	MXP
Starbucks Coffee Argentina, S.R.L.	Argentina	ARP	ARP	MXP
Asian Bistro Argentina, S.R.L.	Argentina	ARP	ARP	MXP
Fast Food Chile, S.A.	Chile	CLP	CLP	
Asian Food Ltda,	Chile	CLP	CLP	MXP
Gastronomía Italiana en Colombia, S.A.S.	Colombia	COP	COP	MXP
Operadora Alsea en Colombia, S.A.	Colombia	COP	COP	MXP
Asian Bistro Colombia, S.A.S.	Colombia	COP	COP	MXP
Food Service Project, S.L.	Spain	EUR	EUR	MXP

### 33. COMMITMENTS AND CONTINGENT LIABILITIES

#### Commitments:

- a) The Entity leases locales to house its stores and distribution centers, as well as certain equipment further to the lease agreements entered into for defined periods (see Note 12).
- b) The Entity has acquired several commitments with respect to the arrangements established in the agreements for purchase of the Brands.
- c) In the regular course of operations, the Entity acquires commitments derived from supply agreements, which in some cases establish contractual penalties in the event of breach of such agreements.
- d) In the signed contracts with third parties, the Entity is entitled to comply with certain mandatory clauses; some of the main mandatory clauses are related to capital investments and opening of restaurants. As of December 31, 2017, 2016 and 2015, these obligations have been met.

#### Contingent liabilities:

In September 2014, the Secretary of Finance of Mexico City determined the company Italcafé S.A. of C.V. taxable income with respect to deposits made to their bank accounts derived from the operation of several restaurants owned by Grupo Amigos de San Ángel, S.A. of C.V., notwithstanding that said income was accumulated by this last company giving it all the corresponding tax effects. Currently the subject is under study at the Attorney General's Office of Mexico City.

It is important to mention that the previous owners of Italcafé would assume the economic effects derived from the aforementioned tax credit, under the terms and conditions established in the agreements that Alsea entered into with the aforementioned sellers.

### 34. FINANCIAL STATEMENT AUTHORIZATION

The consolidated financial statements were authorized for issuance on March 9, 2018 by Mr. Rafael Contreras Grosskelwing, Administration and Financial Director, and therefore they do not reflect any facts that might occur after that date and are subject to the approval of the audit committee and the Entity's stockholders, who can decide to modify them in accordance with the provisions of the Corporations Law.

Fundación Alsea, A. C.

**FINANCIAL STATEMENTS FOR THE YEARS ENDED  
DECEMBER 31, 2017 AND 2016,  
AND INDEPENDENT AUDITORS' REPORT DATED APRIL 2, 2018**

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# Independent Auditors' Report

## to the Board of Directors of Fundación Alsea, A. C.

### Opinion

We have audited the accompanying financial statements of Fundación Alsea, A. C., (the "Foundation") which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Fundación Alsea, A. C. as of December 31, 2017 and 2016, and its financial performance and its cash flows, for the years then ended in accordance with Mexican Financial Reporting Standards (NIF).

### Bases of Opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are independent of the Foundation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for professional Accountants (IESBA Code) and with the Ethics Code issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and IMCP Code.

### Responsibilities of Management and Those Responsible for Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Foundation'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 Foundation or to cease operations, or has no realistic alternative but to do so.

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

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance that the about whether financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high 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 financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgement 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 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 Foundation'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 Foundation'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 Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

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

C. P. C. Juan Carlos Reynoso Degollado  
April 2, 2018

Fundación Asea, A.C.  
**STATEMENTS OF FINANCIAL POSITION**  
 As of December 31, 2017 and 2016  
 (In thousands of Mexican pesos)

ASSETS	2017	2016
<b>Current assets</b>		
Cash and cash equivalents	\$ 55,139	\$ 58,621
Accounts receivable	659	1,637
Recoverable taxes	50	49
Total current assets	55,848	60,307
Other assets, net	27	107
<b>Total</b>	<b>\$ 55,875</b>	<b>\$ 60,414</b>
<b>Liabilities and patrimony</b>		
<b>Current liabilities</b>		
Trade accounts payable	\$ 1,521	16
Taxes and accrued expenses	13,911	1,049
Total liabilities	15,432	1,065
Unrestricted patrimony	40,443	59,349
<b>Total</b>	<b>\$ 55,875</b>	<b>\$ 60,414</b>

See accompanying notes to financial statements.

Fundación Asea, A.C.  
**STATEMENTS OF ACTIVITIES**  
 For the years ended December 31, 2017 and 2016  
 (In thousands of Mexican pesos)

	2017	2016
<b>Revenues</b>		
Cash donations income	\$ 41,050	\$ 44,407
Interest income	3,776	1,652
	44,826	46,059
<b>Expenses</b>		
General expenses		
Value added tax	61,502	34,646
Administrative expenses	587	473
	1,302	875
	63,391	35,994
Other (expenses) – net	(34)	-
Net changes in patrimony	(18,599)	10,065
Income taxes	(307)	-
Unrestricted patrimony at beginning of the year	59,349	49,284
Unrestricted patrimony at end of the year	40,443	59,349

See accompanying notes to financial statements.

Fundación Alsea, A.C.  
**STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2017 and 2016  
(In thousands of Mexican pesos)

	2017	2016
Operating activities:		
Net changes in patrimony	\$ (18,599)	\$ 10,065
Items related to investing activities:		
Amortization of other assets	80	81
(Increase) decrease in:		
Accounts receivable	978	9,128
Prepaid expenses	(1)	-
Increase (decrease) in:		
Trade accounts payable	1,504	(175)
Taxes and accrued expenses	12,863	1,019
Income taxes	(307)	-
Net cash flows from operating activities	(3,482)	\$ 20,118
Net increase in cash and cash equivalents	(3,482)	20,118
Cash and cash equivalents at beginning of the year	58,621	38,503
Cash and cash equivalents at end of the year	\$ 55,139	58,621

See accompanying notes to financial statements.

Fundación Alsea, A.C.  
**NOTES TO FINANCIAL STATEMENTS**  
For the years ended December 31, 2017 and 2016  
(In thousands of Mexican pesos)

## 1. ACTIVITIES

Fundación Alsea, A. C. (the "Foundation"), whose main objective is to contribute to food security of vulnerable communities and to promote human development by supporting initiatives for education.

To accomplish its goals, the Foundation receives donations from individuals and entities, with the authorization of the Mexican Secretariat of Finance and Public Credit (Secretaría de Hacienda y Crédito Público, for its name in Spanish – "SHCP"). Accordingly, donations are tax deductible to the donor; the list of entities eligible to receive donations was published in the Official Gazette on January 9, March 16, July 21 and October 12, 2017 and was granted by Official Letter No. 325-SAT-IV-E-76214 and 600-04-02-2013-16480.

The Foundation does not have any employees, and therefore it is not subject to labor obligations. All personnel services are provided by a related party.

## 2. BASIS OF PRESENTATION

- a. Explanation for translation into English - The accompanying financial statements has been translated from Spanish into English for use outside of Mexico. These financial statements are presented on the basis of Mexican Financial Reporting Standards ("MFRS"), which are comprised of accounting standards that are individually referred to as Normas de Información Financiera, or "NIFs". Certain accounting practices applied by the Foundation that conform with MFRS may not conform with accounting principles generally accepted in the country of use.
- b. Financial Statements of Entities for Non-Profit Purposes - The Foundation has adopted the provisions of Mexican Financial Reporting Standards (NIF) A-2 "Basic Postulates", B-16 "Financial Statements of Nonprofit Purposes" and E-2 "Donations received and granted by entities for non-profit purposes"; consequently, it may not be comparable with financial statements of profitable entities.
- c. Monetary unit of the financial statements - The financial statements and notes as of December 31, 2017 and 2016 and for the years then ended include balances and transactions denominated in Mexican pesos of different purchasing power. Cumulative inflation rates over the three-year periods ended December 31, 2017 and 2016 were 9.87% and 10.52% in each period. Accordingly, the economic environment is not inflationary in either such period and no inflationary effects were recognized in the accompanying financial statements. Inflation rates for the years ended December 31, 2017 and 2016 were 6.77% and 3.36%, respectively.
- d. Income from donations - Donations received must be recognized as revenue for the period, in addition to recognizing increase in assets or decreases in liabilities depending on how donations were received.

The donations received in cash are recognized at the value of cash or cash equivalents received, or at the amount of the unconditional donation pledges received that are accrued and are due. Donations in assets and the cancellation of liabilities are recognized at their fair value.

- e. Classification of costs and expenses - Costs and expenses are presented according to their function because management considers that it provides useful information to the users of the financial statements.

- f. Net change in patrimony – Net change in patrimony is the change in patrimony during an accounting period for a foundation arising from its revenues, costs and expenses.
- g. Patrimony - Patrimony is classified according to the restrictions that the donors established on the assets donated.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**a) Cash and cash equivalents** – Cash and cash equivalents consist mainly of bank deposits in checking accounts and short-term investments that a) are highly liquid and easily convertible into cash, b) mature within three months from their acquisition date and c) are subject to low risk of material changes in value. Cash is stated at nominal value and cash equivalents are valued at fair value. Cash equivalents are comprised mainly of money market funds.

**b) Other assets** – Represent the costs incurred by third parties for licensing and software development and that give rise to future economic benefits because they meet certain requirements for recognition as assets.

Amortization of intangible assets is calculated on a straight line basis over the term of the rights that are four years and is included in the depreciation and amortization of the activity statement.

**c) Provision** - Provisions are recognized for current obligations that arise from a past event, that are probable to result in the use of economic resources, and that can be reasonably estimated.

**d) Income from cash donations** - Income from donations received are recognized at the time the cash is received.

Los ingresos por intereses se reconocen cuando se devengan.

### 4. CASH AND CASH EQUIVALENTS

	2017	2016
Cash	\$ 331	\$ 2,231
Cash equivalents – Money market funds	54,808	56,390
	\$ 55,139	58,621

### 5. INCOME TAXES

Being a non-profit association in accordance with the provisions of the Law on income tax ("ISR"), the Foundation is not subject to income tax, provided that it complies with the requirements regarding distributable surplus, omissions income, purchases not made and improperly registered and expenses that may be incurred and are not deductible, as provided in the law.

In fiscal year 2017, the Foundation made a non-deductible payment, which caused a tax of \$307.

### 6. AUTHORIZATION TO ISSUE THE FINANCIAL STATEMENTS

On April 2, 2018, the issuance of the accompanying financial statements was authorized by C. P. Alejandro Villarruel Morales, Corporate Controller Foundation; consequently, they do not reflect events occurred after that date. These financial statements are subject to the approval of the Foundation's, where they may be modified, based on provisions set forth in the Mexican General Corporate Law.

# GRI Index

Standard	Disclosure	Page or direct response	Omissions
<b>GRI 102: GENERAL DISCLOSURES 2016</b>			
102-1	Name of the organization	Alsea, S.A.B. de C.V.	
102-2	Activities, Brands, products, and services	20-21	
102-3	Location of headquarters	213	
102-4	Location of operations	20	
102-5	Ownership and legal form	Alsea is a publicly-traded limited-liability corporation of variable capital (sociedad anónima bursátil de capital variable), organized and incorporated under the laws of Mexico.	
102-6	Markets served	20-21	
102-7	Scale of the organization	20-21	
102-8	Information on employees and other workers	26-33 We are implementing a HCM system where Human Resources will concentrate all the information of the employees	The breakdown by type of contract is not reported. Reason for omission: Unconsolidated information
102-9	Supply chain	60-63	
102-12	External initiatives	70 Alsea presents this report and endorses the economic, environmental and social principles developed externally by the Global Reporting Initiative.	
102-13	Membership of associations	90	
102-14	Statement from senior decision-maker	87-90	
102-15	Key impacts, risks, and opportunities	70-71,	
102-16	Values, principles, standards, and norms of behavior	4-5, 68-69, 86-87, 91	
102-18	Governance structure	87-90 <a href="https://www.alsea.net/investors/directivos">https://www.alsea.net/investors/directivos</a> <a href="https://www.alsea.net/inversionistas/gobierno-corporativo">https://www.alsea.net/inversionistas/gobierno-corporativo</a>	
102-19	Delegating authority	68-69	
102-20	Executive-level responsibility for economic, environmental, and social topics	68-69	
102-21	Consulting stakeholders on economic, environmental, and social topics	68-69	
102-22	Composition of the highest governance body and its committees	68-69, 89-90	
102-23	Chair of the highest governance body	88	
102-24	Nominating and selecting the highest governance body	89	

Standard	Disclosure	Page or direct response	Omissions
102-26	Role of highest governance body in setting purpose, values, and strategy	Alsea website <a href="https://www.alsea.net/uploads/es/documents/general_documents/alsea_compulsa_estatutos2014.pdf">https://www.alsea.net/uploads/es/documents/general_documents/alsea_compulsa_estatutos2014.pdf</a>	
102-28	Evaluating the highest governance body's performance	89	
102-29	Identifying and managing economic, environmental, and social impacts	70-71	
102-33	Communicating critical concerns	71, 80-81	
102-36	Process for determining remuneration	89	
102-40	List of stakeholder groups	68-69, 72-73	
102-42	Identifying and selecting stakeholders	68-69, 72-73	
102-43	Approach to stakeholder engagement	68-69, 72-73	
102-44	Key topics and concerns raised	70-71	
102-45	Entities included in the consolidated financial statements	99	
102-46	Defining report content and topic Boundaries	70-71  We have applied the reporting Principles regarding the definition of quality. Principle of sustainability context, materiality, stakeholder engagement, accuracy, balance and timeliness	
102-47	List of material topics	70-71	
102-50	Reporting period	70	
102-51	Date of most recent report	Published June 31, 2017 and covering the period from January 1 to January 31, 2016.	
102-52	Reporting cycle	Annual	
102-53	Contact point for questions regarding the report	3rd cover	
102-54	Claims of reporting in accordance with the GRI Standards	70	
102-55	GRI content index	208	

Standard	Disclosure	Page or direct response	Omissions
<b>GRI 103 MANAGEMENT APPROACH 2016</b>			
103-1	Explanation of the material topic and its Boundary	70-71	
103-2	The management approach and its components	70-71	
<b>SPECIFIC TOPICS</b>			
<b>GRI 200 ECONOMIC 2016</b>			
201-1	Direct economic value generated and distributed	10-13	
201-4	Financial assistance received from government	The company did not receive any financial assistance from the government.	
203-1	Infrastructure investments and services supported	9, 12-13, 60, 106, 112	
203-2	Significant indirect economic impacts	9, 12-13, 60, 106, 112	
205-2	Communication and training about anti-corruption policies and procedures	87	
205-3	Confirmed incidents of corruption and actions taken	87	
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	There were no incidents of monopoly practices	
<b>GRI 300 ENVIRONMENTAL 2016</b>			
302-1	Energy consumption within the organization	82	
302-3	Energy intensity	83	
304-2	Significant impacts of activities, products, and services on biodiversity	None of our operations are located in protected areas.	
305-1	Direct (Scope 1) GHG emissions	83	
305-2	Energy indirect (Scope 2) GHG emissions	83	
305-5	Reduction of GHG emissions	83	
306-2	Waste by type and disposal method	84-85	
306-3	Significant spills	None of our operations present the risk of spills.	

Standard	Disclosure	Page or direct response	Omissions
307-1	Non-compliance with environmental laws and regulations	None of our operations violated environmental laws and regulations.	
<b>GRI 400 SOCIAL 2016</b>			
401-1	New employee hires and employee turnover	30	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	30-33	
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	30	
404-1	Average hours of training per year per employee	29	
404-2	Programs for upgrading employee skills and transition assistance programs	29, 33, 39, 61, 87	
405-1	Diversity of governance bodies and employees	7, 26, 87	
408-1	Operations and suppliers at significant risk for incidents of child labor	Alsea does not employ minors.	
413-1	Operations with local community engagement, impact assessments, and development programs	74-77	
415-1	Political contributions	86	
416-1	Assessment of the health and safety impacts of product and service categories	78-79	
417-1	Requirements for product and service information and labeling	77-78	

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