



ANNUAL REPORT 2003



(RAISE TO THE POWER)

Arithmetical operation consisting in finding the multiplication of a given base and to repeat it as a given factor. It is expressed as “to raise a number to a whole power of”, “to raise powers”, “to raise to the second, third...power”, or one may also say “*to raise to the power of Alsea.*”

(COMPANY PROFILE)

Alsea is the leader in operating quick service restaurants. In Mexico it operates Domino’s Pizza, Starbucks Coffee, and it is the major franchise of Burger King. In Brazil it operates Domino’s Pizza. The operation of its multi-units is supported by its distribution division, DIA.

The stock is traded in the Mexican Stock Exchange under the symbol ALSEA*.

(MISSION) Raison d’être

To develop, manage and control the businesses of Alsea by employing a synergy and critical mass model to improve our human and material resources.

“With people for people”

(VISION) Where we want to go

Be of the highest quality and most profitable quick service restaurant operator.

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Financial Highlights	Board of Directors	Message to the Shareholders	Domino’s Pizza	Starbucks Coffee	Burger King	DIA	Shared Services	Management’s Discussion & Analysis	Corporate Governance	Financial Statements
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(CORPORATE STRUCTURE)



Operadora DP de México, S.A. de C.V., manages the brand in Mexico through 472 units of which 304 are owned stores and 168 are sub-franchises. De Libra, Empreendimentos, Comercio e Serviços Ltda. (subsidiary of DoBrasil, S.A. de C.V.) manages the brand in Brazil through 29 stores.



Café Sirena, S. de R.L. de C.V., manages the brand in Mexico through 22 owned stores.



Operadora West, S.A. de C.V., is a franchisee of Burger King Corporation and manages the brand in Mexico through 37 restaurants.



Distribuidor Internacional de Alimentos, S.A. de C.V., dedicated to the specialized distribution of food and the manufacturing of pizza dough, manages five distribution centers with national coverage.

(OUR VALUES) What makes us great

- S** Service and Customer Focus
- E** Excellence and Integral Development
- R** Respect, Integrity and Austerity
- V** Vigilant on Quality and Productivity
- I** Innovation and Creativity
- C** Efficiency, Commitment and Teamwork
- E**

(STRATEGIC PLAN 2003-2008)

Customer satisfaction and operating excellence

Customers always come first for us. We meet their needs and go beyond their expectations and the competition's through product, service, and appearance, giving them great value for their money. Our quality, efficiency and productivity abide by international performance standards.

Marketing leadership

We are leaders in our industry, by operating brands and concepts that have proven successful in order to consolidate our position.

Preferred employer

We promote a comprehensive development of our human resources by offering integral remuneration that encourages retention. We want to be the preferred employer of our market.

Strategic partners

We jointly grow with our suppliers and commercial partners. We strive to maximize benefits for our franchisers, sub-franchisees and associates.

Shareholders' value

We increase our shareholders' equity by striving to reach the highest productivity and profitability levels.

FINANCIAL HIGHLIGHTS⁽¹⁾

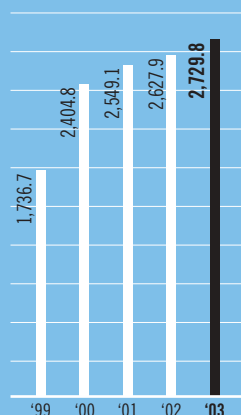
	2003	%	2002	%	2001	%	2000	%	1999	%	CAGR 03/99
Net Sales	\$ 2,729,813	100.00	\$ 2,627,916	100.00	\$ 2,549,196	100.00	\$ 2,404,849	100.00	\$ 1,736,744	100.00	12.0%
Cost of Goods Sold	1,194,188	43.75	1,160,823	44.17	1,146,160	44.96	1,055,616	43.90	788,360	45.39	10.9%
Gross Profit	1,535,625	56.25	1,467,093	55.83	1,403,036	55.04	1,349,233	56.10	948,384	54.61	12.8%
Operating Expenses	1,140,904	41.79	1,076,619	40.97	1,047,962	41.11	983,629	40.90	618,102	35.59	16.6%
Depreciation	153,493	5.62	120,564	4.59	117,443	4.61	107,204	4.46	65,605	3.78	23.7%
Operating Profit	241,228	8.84	269,910	10.27	237,631	9.32	258,400	10.74	264,677	15.24	-2.3%
EBITDA	394,721	14.46	390,474	14.86	355,074	13.93	365,604	15.20	330,282	19.02	4.6%
Consolidated Net Profit	117,087	4.29	138,986	5.29	30,976	1.22	115,102	4.79	161,453	9.30	-7.7%
Total Assets	1,709,502	100.00	1,651,440	100.00	1,533,693	100.00	1,664,490	100.00	1,349,750	100.00	6.1%
Cash	195,646	11.44	207,086	12.54	100,558	6.56	112,995	6.79	89,712	6.65	21.5%
Liabilities with Cost	142,907	8.36	170,457	10.32	231,107	15.07	328,887	19.76	214,263	15.87	-9.6%
Shareholders' Equity	1,152,151	67.40	1,080,453	65.43	961,008	62.66	978,980	58.82	900,902	66.75	6.3%
Price of Share	9.60		7.35		3.50		6.14		11.90		-5.2%
Profit per Share	1.04		1.17		0.26		0.95		1.33		-6.0%
Dividend per Share	0.38		0.09		0.34		-		-		
Book Value per Share	9.84		9.10		7.96		8.04		7.42		7.3%
Employees	7,336		6,950		6,893		6,834		5,655		6.7%

⁽¹⁾ Figures in thousands of pesos, except per share data and employees, expressed in purchasing power as of December 31, 2003.

⁽²⁾ The graphs present figures in million pesos expressed in purchasing power as of December 31, 2003.

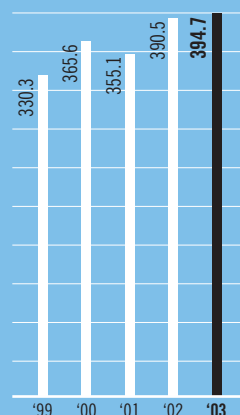
(NET SALES)

CAGR= 12.0%



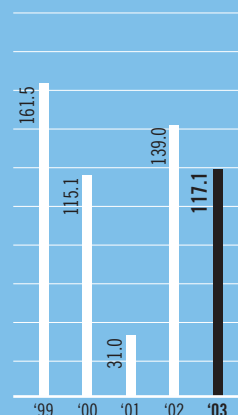
(EBITDA)

CAGR= 4.6%



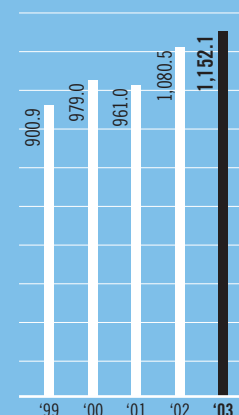
(NET PROFIT)

CAGR= -7.7%



(SHAREHOLDERS' EQUITY)

CAGR= 6.3%



BOARD OF DIRECTORS

(PRESIDENT) Cosme Alberto Torrado Martínez

(RELATED DIRECTORS) Alberto Torrado Martínez
Alberto Torrado Monge
Armando Torrado Martínez
Federico Tejado Bárcena

(INDEPENDENT DIRECTORS) Francisco Gama Cruz
Marcelo Rivero Garza
José Manuel Canal Hernando
Salvador Cerón Aguilar

(STATUTORY EXAMINER) Maximino Manuel Sañudo Bolaños

(SECRETARY) Xavier Mangino Dueñas

(BOARD OF DIRECTORS COMMITTEES)

Audit Committee
José Manuel Canal Hernando (PRESIDENT)
Cosme Alberto Torrado Martínez (MEMBER)
Mario Sánchez Martínez (SECRETARY)

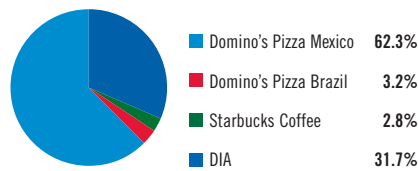
Planning and Finance Committee
Salvador Cerón Aguilar (PRESIDENT)
Cosme Alberto Torrado Martínez (MEMBER)
José Rivera Río Rocha (SECRETARY)

Assessment and Compensation Committee
Francisco Gama Cruz (PRESIDENT)
Alberto Torrado Monge (MEMBER)
C. Ricardo García Luna y Martínez (SECRETARY)

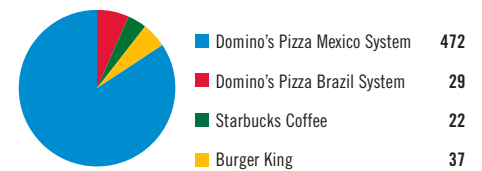
Marketing Committee
Marcelo Rivero Garza (PRESIDENT)
Federico Tejado Bárcena (MEMBER)
Diego Cossío Bartón (MEMBER)
Francisco Rodríguez Lara (SECRETARY)

MESSAGE TO THE SHAREHOLDERS

(SALES MIX*)



(NUMBER OF STORES)



* Note: Burger King will be consolidated in Alsea financial statements as of January 2004.

To Our Shareholders,

Alsea had an exceptional year in 2003, despite a dearth of political agreements and economic uncertainty in our country. Thanks to the recognition of our customers, we managed to maintain our leading position, operating 560 quick service restaurants under trademarks of unquestionable international renown.

At Alsea, we are committed to a mission upheld by our values and we have achieved the goals set out in our Strategic Plan for 2003 through 2008. The resulting figures and our continuous growth are the products of the efforts of our exceptional team that is experienced in customer service.

Alsea's consolidated sales figures increased by 3.9% at \$2.73 billion pesos compared with 2002. Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) was up by 1.1% at \$394 million pesos. It is worthwhile noting that Operadora DP, a company operating the Domino's Pizza trademark in Mexico, was affected by a change in the value added tax rate from 0% to 15%, when it was decided to tax home-delivery foods as of January 2003. This is Alsea's main subsidiary, whose share of total revenues came to 62.3%. The effect of this represented 5.7 percentage points in Alsea's operating margin. Although the task was not an easy one, we managed to recover by means of technical marketing strategies and

cost and expenses efficiency, to conclude 2003 with an operating margin of 8.8% versus last year's 10.3%.

Our financial position is sound and permits us to keep growing. Interest-bearing liabilities dropped by 16.2% and shareholders' equity showed an increase of 7.6%; return on equity was 9.8% and our cash flow generation places us in better financial condition to maintain orderly growth. The combination of all of these elements permitted Alsea to generate an aggregate economic value of \$85 million pesos.

In 2003, we opened 42 stores of our brands: Domino's Pizza in Mexico and Brazil, Burger King and Starbucks Coffee achieving 560 units.

These figures reflect a 30% increase in our stock price in the securities markets. Net earnings per share came to \$1.04 pesos and we declared a \$0.3625 peso dividend per share payment in keeping with our policy in this regard.

Good Corporate Governance and our compliance with the Code of Best Corporate Practices ensure Alsea and its subsidiaries of transparent and professional management. We believe strongly in these principles and make an

effort to adapt our organization to the best of practices, with the consistent goal of generating value and security for our shareholders.

Despite the growth of the number of trademark units that we operate, we focus on the very heart of each of them, ensuring that we offer our customers the best in both products and services, all of this thanks to the more than 7,000 people on the Alsea team.

We are grateful to our staff, customers, shareholders and strategic partners for their participation in Alsea's success. We are conscious of the fact that this has to be maintained by living everyday with conviction in our mission, our vision and our values.

At Alsea, the best is yet to come.

COSME A. TORRADO MARTÍNEZ
CHAIRMAN OF THE BOARD

ALBERTO TORRADO MARTÍNEZ
CHIEF EXECUTIVE OFFICER



Ana Laura Ocampo
CONDESA STORE

DOMINO'S PIZZA MEXICO



472 Stores.

70.6 million customers served.

26.3 million pizzas sold.

23.5 million orders.



“Undoubtedly, our greatest accomplishment in 2003 was the 5.9% growth in same store orders, which is the result of our customer-focus strategy. We continue to show opportunities for growth: we opened 9 stores in 2003.”

FEDERICO TEJADO

DIRECTOR OF DOMINO'S PIZZA MEXICO

What was the impact of the VAT Amendment?

The impact on the same store sales of this division was 12 percentage points; however, our focusing on income-generation efforts, through marketing strategies, allowed total sales to show a slightly positive variation of 0.3%. Additionally, a strict control of costs and expenses in the entire organization generated greater efficiency.

What was the market share in 2003?

A 26.4% participation in sales.

Where was investment utilized during the year?

We invested 59.1 million pesos in opening 14 new stores, relocating 4, remodeling 3, and the closing of 8 units. In addition, we invested in

delivery vehicles and store equipment such as Heatwave, a technology that allows for the delivery of an even hotter pizza to our clients.

What is the average investment per store in each one of the formats managed?

US\$200,000 in stores with home delivery service and US\$120,000 in express format, units mainly located in shopping malls and the Mexico City subway system, which have no delivery service.

Do franchises continue to be granted?

No, since the entire territory is assigned to the 22 current sub-franchisee holders. Outside of these entities, Alsea develops its own stores. However, sub-franchisees are

granted in particular cases, such as the one in Six Flags, Mexico City.

What is the amount paid for royalties and publicity?

Our sub-franchisee holders' pay 6.5% of their net sales of royalties and 3.2% is paid to Domino's Pizza International; in addition to 4% of sales for the advertising fund.

How many direct jobs are generated?

We have just over 10,000 people participating in the entire system.

What is the significance of Domino's Pizza Mexico to Domino's Pizza International?

Our country has the highest number of stores after the United States.

	2003	2002	2001	2000	1999	CAGR 99/03
Owned	304	310	283	277	221	8.3%
Sub-franchises	168	153	142	132	114	10.2%
Total	472	463	425	409	335	8.9%



FUTURE SCENARIO: DOMINO'S PIZZA MEXICO

We will open around 90 stores, split between franchisees and owned to conclude in 2008 with 560 units.

What is the profitability of a store in Mexico compared to that of one in the United States?

Mexico is four times more profitable due to the cost and expense structure.

How will future growth unfold?

We will open around 90 stores, split between franchisees and owned, in the next 5 years to conclude in 2008 with 560 units. There are cities with at least 50,000 inhabitants where we have no stores. On another front, we envision growth in cities we are actually covering. In addition, shopping malls offer important expansion opportunities.

Which are the main barriers of entry?

Undoubtedly, the size of Domino's Pizza, as well as that of its current competition. Being the market

leader means better opportunities in purchase volume, brand name recognition, service and product guarantees, advertising investment, as well as in our operations, logistics, distribution, and geographical coverage capabilities.

What are the main challenges to be tackled?

Our own people: covering vacant positions and reducing personnel turnover in the stores.

Where will investment be directed in the next years?

To establishing new stores and maintaining current ones, upgrading technology and training personnel at all levels.

Are store sites rented?

Yes, of the 304 corporate stores, only five are owned.

DOMINO'S PIZZA BRAZIL



29 stores.

A growth of **26%** in the number of units vs. 2002.

We are **leaders** in Rio de Janeiro.



“Our accomplishments: Being the leader in Rio de Janeiro with 16 more stores than our closest competitor upon proving the success of the business model in this city.”

EDUARDO GÁNDARA
DIRECTOR OF DOMINO'S PIZZA BRAZIL.

How has the quick service industry evolved in Brazil?

A great deal of competition has unfolded. Local brands operating as franchises have improved their image, technology and operations so as to prepare for the entry of international brands to the market.

What is the position of Domino's Pizza in Brazil?

We are positioned with high-quality pizza focused on home delivery and providing a 30-minute delivery guarantee or it will be free. In Rio de Janeiro, we are leaders with 16 more stores than our closest competitor. There are great growth opportunities in Sao Paulo since it is the second city in the world in pizza consumption, after New York.

How was consumer performance?

The Brazilian economy in general displayed a reduced consumption and Domino's Pizza showed a 9.1% decline in same store sales.

What modifications have been introduced to adapt the flavor to the taste of the Brazilian consumer?

Ingredients from the region were introduced, as was the production of thin-crust pizza, gourmet pizza, and sweet flavors with a wider-ranging menu focused on specialties. Personalized service is offered with in-store dining areas.

Where was investment utilized during the year?

17.0 million pesos were invested, in net openings six stores, relocating three and remodeling ten units.

What is the average investment per store?

US\$160,000 for stores with home delivery service and US\$90,000 for express format.

How have food distribution matters been resolved for that South American country?

We have two distribution centers in Rio de Janeiro and Sao Paulo. We also manage small supply stores behind the stores in four different cities, in addition to having local suppliers that distribute the products directly to the units.

How many direct jobs are generated by Domino's Pizza Brazil?

Around 400.

	2003	2002	2001	2000	1999	CAGR 99/03
Total	29	23	12	5	9	34.0%



FUTURE SCENARIO: DOMINO'S PIZZA BRAZIL

The main challenge is to position ourselves as the “best delivery pizza” and test out the business model to penetrate the Sao Paulo market.

What does Domino's Pizza International expect with the development of the brand in Brazil?

The expectation is to duplicate the results obtained in Mexico since it is the largest market in Latin America.

How do you picture the growth of the quick service industry in Brazil over the next few years?

New local brands will arise, there will be growth in other cities and there will be the arrival and consolidation of several international chains.

How do you envision the growth of Domino's Pizza Brazil for the future?

We are working on the business model for developing stores in Sao Paulo.

What are the main barriers of entry for new participants in Domino's Pizza's sector in Brazil?

An exacting consumer and a highly fragmented market as a result of an economy looking for low prices, an audience that reacts to investments in advertising. An economy with complex labor and tax legislation.

Where is Domino's Pizza's best opportunity in Brazil?

In home delivery, where young people are more receptive to high quality products. Small participants tend to disappear in a highly competitive market.

What are the main challenges to be faced?

Position ourselves as the “best home delivery pizza” and test out the business model to penetrate the Sao Paulo market.

What will Domino's Pizza invest in and where will these resources go in the next few years?

We have a long-term vision, so we will make sure that the business model in Brazil is a satisfactory one. We will therefore keep a conservative position with regard to investment, as we are not planning on opening any stores. Investment in technology, training and distribution will be moderate.

Why are there no sub-franchisees in Brazil?

Because we will offer our sub-franchisees a successful model that will generate high profitability for their investment once it has been tested.





Iván Romero
OPERATIONS

STARBUCKS COFFEE



22 stores.

Mexico is the **second** country in opening stores, after Germany.

More than **300** direct jobs generated.



“Our greatest accomplishment in 2003 was opening 18 stores in one year, operating under a successful business model. Likewise, constructing the foundations of the structure and the talent of our people will ensure the growth of Starbucks Coffee in our country.”

GERARDO ROJAS

DIRECTOR OF STARBUCKS COFFEE MEXICO

How has growth performed in this first year of operations?

At a brisk pace and solid (more than one store per month); a sprightly increase, with new learning experiences that can be capitalized upon in the coming years. The Mexican consumer has shown acceptance and enjoyment of living “The Starbucks Experience”.

How has Starbucks Coffee positioned itself in our country's coffee sector?

“As coffee lovers, with a grand commitment to the quality and service we provide our customers: one cup at a time.”

What is the format of the stores?

Abbreviated, core, and flagship, which are classified by size and

range from gazebo-type kiosks to outlets of approximately 200 m². We are committed to adapting to the surroundings of each one of the communities where we are established.

What market niche is Starbucks Coffee aimed at in Mexico?

Starbucks is for everyone; it represents the “Third Place,” after home and the office, Starbucks is where our clients can relax, read a book or meet with friends. We wish to offer the best coffee in the best place, with the best service.

Are franchises granted?

No, all stores are owned. We develop the outlets under a joint-venture scheme with Starbucks Coffee International.

How many jobs did Starbucks Coffee contribute in the generation of direct employment in Mexico?

Over 300, which we estimate will double in 2004.

What is Mexico's position regarding Starbucks Coffee International?

Mexico is a key market with solid economic foundations that represent the launching pad for the rest of the Latin American market. In addition, Mexico is one of the five main coffee-producing countries in the world.

What elements were decisive in agreeing to the joint-venture?

Alsea's focus on the quick service industry, and its experience in the management of multiplex units strengthened by its distribution and logistics network.

	Dec 2003	Dec 2002
Number of stores	22	4



FUTURE SCENARIO: STARBUCKS COFFEE

Fostering the coffee culture in Mexico to live “The Starbucks Experience”; we plan to have around 200 stores by 2008.

How will Starbucks Coffee growth unfold in Mexico in the next few years?

We picture having around 200 stores by 2008.

What is Mexico's per capita coffee consumption?

Between 700 to 800 grams; however, Mexico is the fifth largest coffee-producing country in the world. We see this as a great opportunity to capitalize on, knowing that we have to contribute with our two cents' worth to ensure that the coffee culture spreads and, in this way, increase domestic consumption.

What are the main barriers of entry of new participants in the sector in which Starbucks Coffee participates?

The backing we receive from our international partner, who is knowledgeable of the coffee culture and has experience in understanding the preferences of the consumer and offers quality products with a brand name of renowned prestige.

What are the main challenges faced?

Fostering the coffee culture in Mexico to live “The Starbucks Experience”, promoting accelerated

growth and becoming a large company in number of stores and sales volume, while still maintaining an efficient structure and organizational culture. We are dynamic, sprightly, non-bureaucratic, productive, innovative, and very much in touch with the operation.

When will expansion outside of the Federal District begin?

We will open stores in Guadalajara in 2004.





Mirna Gavito
NAPLES STORE

BURGER KING



37 restaurants.
A growth of **32%** in number of stores vs. 2002.



“The most important accomplishment in 2003 was the opening of nine new restaurants, which represent a growth of 32.1% in number of units.”

FABIÁN GOSSELIN
DIRECTOR OF OPERADORA WEST

Who is Operadora West?

Is the largest franchisee which operates the brand in Mexico. We operate the region of Bajío, the state of Jalisco and the Federal District's metropolitan area, although there are other nine franchisees.

Who is Burger King Corporation?

It is our international partner in the United States which grants franchises to manage the brand in Mexico.

Does Operadora West grant franchises?

No, because we do not operate under a sub-franchisee scheme.

What has been the advantage of Alsea's and Operadora West's partnership?

Alsea has boosted its growth rate and Operadora West has benefited from Alsea's in-depth knowledge of the

quick service industry, as well as the logistics and food distribution services rendered by DIA. Before the agreement with Alsea we had 24 units, a year and a half later we already had 37 restaurants.

How was the consumption performance in the hamburger market sector?

Consumption remained stable in 2003 and Operadora West focused on harnessing new customers, using discounts and promotions.

What was the participation in the hamburger market sector?

The Burger King system has approximately 16% of all the hamburger restaurants in Mexico. Operadora West, being a franchisee, participates with 19% of the Burger King System in number of units.

What is the market niche targeted by Burger King in Mexico?

The mid to mid-high socioeconomic level, focusing on children between the ages of 4 and 12, and adults between 19 and 44.

Where was investment utilized during the year?

In opening nine new restaurants and remodeling four others.

What is the average investment per outlet?

US\$700,000.

How much is paid in royalties to Burger King Corporation?

The 5% of net sales and another 5% for the advertising fund.

Dec 2003

Dec 2002

Number of stores

37

28



FUTURE SCENARIO: BURGER KING

We want to be near our customers, we will open around 70 restaurants between 2004 and 2008.

How many jobs does Operadora West contribute for the generation of direct employment?

Around 1,200 employees.

How has the brand name performed in Mexico?

Mexico has been one of the countries that has shown the best results and offers greatest growth opportunities for the Burger King Corporation.

As of what date will Operadora West consolidate its financial statements with Asea's?

Starting January 1st 2004.

How do you envision the growth in per capita consumption of hamburgers in Mexico?

Consumption will depend on the proximity of the restaurant to the consumer. For this, the opening of new restaurants is a key factor, as is the incidence on the habits of the consumer regarding our products.

What will Operadora West's growth be in the next few years?

11 restaurants per year.

What are the main barriers for entry?

Undoubtedly, current market players have opened up consumer-renowned brands, which constitute a barrier to new participants. Additionally, price is a factor that especially affects small chains that are still not able to produce a critical mass.

What are the prospects for the hamburger market niche?

To increase the habit of consuming hamburgers and achieve greater market penetration through a larger number of restaurant openings.

Which are the main challenges faced?

We will have to reckon with greater competition, especially if the

macroeconomic indicators remain stable. There are many small and medium-sized chains in the United States that find the Mexican market especially appealing, mainly due to the success that Burger King and his competitor have enjoyed in Mexico, and they will attempt to gain a foothold domestically.

What investments will Operadora West make in the next few years and where will these resources be focused?

Investments will center on opening outlets, with 400.0 million pesos earmarked for opening 70 restaurants between 2004 and 2008.





Rubén Baena
DIA OPERATOR

DISTRIBUIDOR INTERNACIONAL DE ALIMENTOS



Two visits per week to **120** cities.
698 sales points.
320 distribution routes.
1,517 weekly deliveries.



“The most important accomplishment in 2003 was being able to offer a complete on-time service, to maintain an efficient distribution operation and to improve our processes with investment in the dough production area. We implemented demand planning models to optimize inventories.”

HÉCTOR ORRICO
DIRECTOR OF DIA

What is DIA?

It is Alsea's subsidiary dedicated to supply food products to the different brands, strengthening their operations by allowing them to focus on end customer service.

How many distribution centers are there?

There are five: Mexico City, Monterrey, Tijuana, Hermosillo and Cancun.

What coverage has DIA achieved?

DIA offers services nationwide, covering 120 cities. It visits 698 sales points twice every week, traveling 141,080 kilometers per week and delivering 232,780 boxes.

What is the distribution fleet?

180 trucks, with three temperatures to transport dry, refrigerated and frozen foods.

What operations does DIA engage in?

Demand planning, purchasing, storage, food distribution as well as the production of pizza dough.

Who are its customers?

Domino's Pizza, Starbucks Coffee, Burger King and Cinemark.

What is the profile of the clients it manages?

Multiple-unit chain characterized by national geographic dispersion, which manage large volumes and rely on a standardized products catalogue.

What are the products with the greatest volume?

Cheese, dough, sausages, pizza sauce, potatoes, and hamburger meat.

Do you have supplier development programs?

We have a Strategic Partners program with two mainstays: the product guarantee and the service level provided to us.

What is the future of distribution in Mexico?

Nowadays, the leading brands base their success on efficient logistics and distribution since it is the means through which its products reach the consumer. We have no doubt that distribution will become an even more



FUTURE SCENARIO: DIA

Distribuidor Internacional de Alimentos will continue to be the key of logistics and food distribution for backing the growth of our brands.

important pillar of all consumer product sales organizations.

What will the participation of DIA in Alsea amount to in the long run?

DIA will continue to be the key for backing the growth of units for each one of the brands. We will continue focusing on efficiency and continuous improvement in our operations.

What will the investment and destination of said resources be in the coming years?

19 million pesos mainly for the areas of information systems, production and, most importantly: the training of our people.

SHARED SERVICES

Alea, upon embarking on its operations under a Shared Services scheme, seeks to concentrate the resources of similar activities in the entire organization to provide service to the brands it manages.

We focus on:

- Having a support organization, concentrating on customer satisfaction, efficiency and continuous improvement.
- Offering a better service to business operations with common processes and systems.
- Emphasizing the creation of value and its measurement through process redesign.
- Promoting the evolution of Alea in some of the procedures to be managed through outsourcing.

Alea is wholly engaged in a transition process to reach the Shared Services Center. The benefits are:

1. Supporting the accelerated growth of the brands we managed.
2. Updating the technological platform.
3. Integrating supply chain operations.
4. Optimizing the efficiency of staff areas.

Operating under a Shared Services Center allows the brands to focus on their main activity: eliminating their support functions. With process centralization, Alea benefits from its critical mass, exploiting economies of scale by reducing its operating expenses, increasing margins and improving Alea's level of service.

The transition means a change in culture. In Alea we are focusing attention on clients and quality; that is why we have established service agreements between the different staff areas and business units to implement the technological tool in the next two years.

DISTRIBUTION AND LOGISTICS	DEVELOPMENT	HUMAN RESOURCES	SYSTEMS AND PROCESSES	ADMINISTRATION AND FINANCE	STRATEGIC PLANNING	INTERNAL AUDIT
HÉCTOR ORRICO ORNELAS	ARMANDO TORRADO MARTÍNEZ	C. RICARDO GARCÍA LUNA Y M.	SALVADOR ROCHA CITO	JOSÉ RIVERA RÍO ROCHA	JUAN CARLOS JALLATH H.	MARIO SÁNCHEZ MARTÍNEZ
<ul style="list-style-type: none"> • Manage the Alea brands supply chain. 	<ul style="list-style-type: none"> • Development of points of sale selection. • Control of leasing contracts. 	<ul style="list-style-type: none"> • Recruitment and selection. • Training and qualification. • Performance evaluation. • Compensation. • General services. • Labor relations. 	<ul style="list-style-type: none"> • Technological implementation of point-of-sale information, processes, communication and solutions for monitoring operating and financial management. 	<ul style="list-style-type: none"> • Financial planning, administration, internal control, information and financial analysis that will generate value for the stockholder. 	<ul style="list-style-type: none"> • Development of the process of Strategic Planning, including follow-up and evaluation. • Corporate Communications. 	<ul style="list-style-type: none"> • Ensure compliance with internal control.

MANAGEMENT'S DISCUSSION & ANALYSIS

Our financial position is sound and permits us to keep growing. Interest-bearing liabilities dropped by 16.2% and shareholders' equity showed an increase of 7.6%; return on equity was 9.8% and our cash flow generation places us in better financial condition to maintain orderly growth. The combination of all of these elements permitted Alsea to generate an aggregate economic value of \$85 million pesos.

Sales increased 3.9% in 2003, reaching 2.73 billion pesos. This increase in 101.9 million pesos was the result of:

- A slight increase in net sales of 4.3 million pesos or 0.3% for Domino's Pizza Mexico, mainly supported by a significant growth in same store orders of 5.9% and by the greater number of stores. The former is compensated by the impact of the 15% VAT in our home delivery sales, and by the difference of 3 sales days due to calendar considerations.
- Domino's Pizza Brazil increase of 7.7 million pesos, mainly boosted by the opening of 6 units in the last 12 months.
- Starbucks Coffee increase of 69.8 million pesos as a result of opening 18 new stores in the last 12 months.
- The increase of 13.4 million pesos for DIA, based upon a greater number of units served, and the growth in sales of the brands to which it caters.

Gross Profit grew 4.7%, jumping to 1.536 billion pesos. This increase of 68.5 million pesos in 2003 resulted from:

- A decrease of 12.9 million pesos for Domino's Pizza Mexico, which reflected a 1.7 percentage point slump with respect to sales following the

decision not to pass on the impact of the VAT to the clients.

- An increase of 5.2 million pesos for Domino's Pizza Brazil, mainly due to improvements in operations.
- Starbucks Coffee positive contribution of 45.8 million pesos.
- An increase in the gross profit of DIA in the amount of 23.7 million pesos, as a result of passing on exchange rate variations to the clients, improved purchasing management, including the negotiation of discounts for prompt payment, compensated by the combination of sales per brand.

The gross margin climbed 50 base points, moving from 55.8% to 56.3%.

Variable Expenses with respect to sales were greater by 7.9 million pesos as a result of:

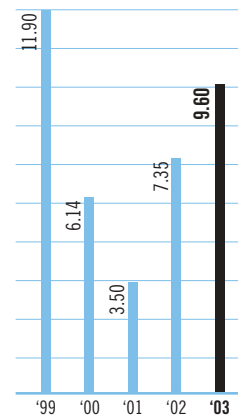
- An increase of 6.7 million pesos for Starbucks Coffee work force expenses.
- An increase of 7.3 million pesos over the previous year in work force expenses, royalties paid to the United States, and contributions made to the advertising fund supporting Domino's Pizza Mexico end-of-year sales campaigns.
- An increase of 2.5 million pesos in the consumption of some DIA supplies, compensated by savings in

distribution expenses of 8.6 million pesos.

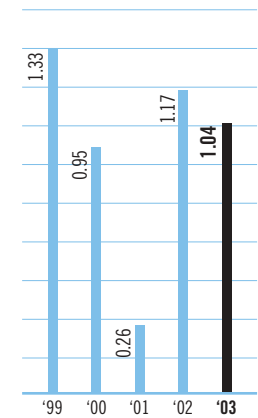
The 39.0 million peso increase in Fixed Costs is mainly the result of:

- An increase of 27.8 million pesos in salaries and compensation for providing 4.3 million pesos for the Stock Option Plan, the 11.6 million peso increase for the opening of new Domino's Pizza and Starbucks Coffee stores in Mexico and Brazil, an increase of 7.4 million pesos in employment termination settlements resulting from the fusion of several regions, transfer bonuses, salary standardization, and the hiring of regional sales managers.
- An increase of 13.6 million pesos in general services for the opening of 33 stores, as well as increases in electric, water and gas services expenses, which exceeded the rate of inflation.
- An increase of 8.4 million pesos in leasing expenses resulting from the opening of 33 stores.
- An increase of 4.8 million pesos for the repair and maintenance of Domino's Pizza units in Mexico and Brazil.
- All of the above compensated with a savings of 15.2 million pesos in professional services for projects carried out in 2002.

(PRICE OF SHARE)



(PROFIT PER SHARE)



An increase of 32.9 million pesos in Depreciation and Amortization due to the change in amortization policy from 20 to 13 years for the amortization of “improvements to rented locations” in Domino’s Pizza Mexico and DIA, as well as the increase in the number of units to 33, which is consolidated with respect to the same period for 2002.

Operating profit fell off 10.6% to 241.2 million pesos. Likewise, the operating margin decreased from 10.3% to 8.8% in 2003, showing a 1.5 percentage point decrease.

EBITDA increased 1.1% in 2003, reaching 394.7 million pesos and the EBITDA margin showed a 40 base point decrease dropping from 14.9% in 2002 to 14.5% in 2003.

The integral cost of financing decreased 75.6% as a result of the following:

- Less interest paid for a lower leverage level of 27.5 million pesos, as well as the drop in interest rates in the last 12 months.
- An increase in interest earned of 1.0 million pesos by reason of a larger cash level.
- Reduced exchange rate results by 3.0 million pesos since the 2002 exchange rate held greater variations.

An expense of 31.2 million pesos is presented in Other Expenses and Products, resulting from:

- An expense of 19.2 million pesos, which corresponds to the retirement of obsolete fixed assets resulting from the equipment renovation program, as well as for the retirement of improvements of rental locations due to remodeling and relocation of 11 stores.

- The 16.7 million pesos expense incurred in the unincorporation of a subsidiary in Brazil.
- The sale of “Para Servirle a Usted” shares, which generated a 3.5 million pesos loss.
- Earnings in the amount of 5.2 million pesos upon obtaining a favorable verdict related to the lawsuit that we pursued regarding the 2002 Salary Credit Substitutive Tax.

The Effective Income Tax Rate for 2003 was 39.2%, mainly increased by the financial estimate for the unincorporation of EXIM del Caribe in Cancun, as well as capitalizing on the immediate deduction of fixed assets in certain regions of the country; while the 2002 figure of 31.3% reflected financial benefits due to fiscal consolidation.

Earnings of 9.4 million pesos are presented in the results of Associated Companies for 2003, which corresponds to our participation in Operadora West, and Cool Cargo.

A loss of 16.4 million pesos in 2003 belongs to the Discontinued Operations of Exim del Caribe, recognizing earnings of 3.0 million pesos in the net balance for the period.

Net earnings were 117.1 million pesos, which represents a 15.7% drop. The net profit margin decreased one percentage point from 5.33% to 4.3% in 2003.

With respect to Balance Sheet accounts, the company reduced its inventory turnover 6 times, reducing the

same from 17 to 11 times; the company also increased its client base in 5 days, moving up from 8 to 13 days, and accounts payable to suppliers were reduced by 9 days, decreasing from 46 to 37 days.

Interest-bearing liabilities dropped by 16.2%. Short-term liabilities with cost amounted to 123.9 million pesos, which represents an increase of 87.8 million pesos and reflects the reclassification of debt from long to short term, corresponding to the Medium-Term Promissory Note for 100.0 million pesos, which comes due in August 2004.

The consolidated balance sheet shows a current assets to short-term liabilities ratio of 1.91 times, an acid test of 1.52 times, a total liability to shareholders’ equity ratio of 0.43 times, and interest-bearing liabilities to shareholders’ equity of 0.12 times. The company is complying in this manner with all the limitations it holds by reason of debt issue within its financial structure.

JOSÉ RIVERA RÍO ROCHA
CHIEF FINANCIAL OFFICER

CORPORATE GOVERNANCE

Audit Committee

To the Board of Directors of ALSEA, S.A. de C.V.

In accordance with Article 14 of the Securities Market Law and on behalf of the Audit Committee, I hereby inform you of the activities we carried out related to the fiscal year ending December 31, 2003. As work progressed we have kept in mind the recommendations established in the Code of Best Corporate Practices. The Statutory Examiner of the Company was invited in accordance with the aforementioned law and was present at the meetings held.

In compliance with the fundamental responsibilities of Management related to the effectiveness of the alignment of internal control and the accurateness and reliability of the financial information that Management prepares to be used by the Board of Directors, shareholders and third parties, we carried out the following important activities:

1. With the support of the external and internal auditors, we reviewed internal control general guidelines, following up on Management implementation of the resulting suggestions.
2. We approved the Internal Audit work program and corresponding budget for the 2003 fiscal year.
3. We received periodic reports from Internal Audit concerning progress of the approved work program and variations it could have had, as well as the causes for them. We analyzed and followed up on their observations and suggestions and their timely implementation.
4. Based on a careful evaluation, we concluded that we should recommend that the Board of Directors invite a new firm in order to conduct an external audit of the company. Beforehand, we made certain of their independence and reviewed in detail their focus and work program, as well as their coordination with the Internal Audit department.
5. We maintained constant communication with the new external auditors in order to be aware of their progress, as well as any observations they made, especially for finishing their audit and review of annual financial statements. We became aware of their conclusions in a timely manner, and we recommended approval of the annual financial statements to the Board of Directors.
6. We followed up the recommendations presented by the external auditors as a result of the 2002 period audit. All significant suggestions were implemented.
7. We reviewed the financial information that Management prepares quarterly to be presented to the stockholders and general public, making sure it was prepared using the same accounting criteria used to prepare the annual report.
8. Upon careful discussion of the accounting policies adhered to by the Company, we recommended their approval to the Board of Directors. No changes to accounting policies were made during the year.
9. Through Internal Audit and with the support of third parties, we reviewed the transactions carried out between the company's subsidiaries and related parties, making sure that they were carried out in accordance with established contracts, at market value, and that they were clearly stated in the financial statements. We requested Management to be informed of any unusual transactions which nature and relative importance merited such in a timely manner.
10. We verified the existence of the controls established by the company, to ensure compliance with the different legal stipulations to which it is subject.
11. Systems Management held a presentation involving their respective field, its operation and the controls established. We decided to request a specific review of the internal controls in this area to be conducted by independent experts in 2004.
12. We followed up the distribution process of the Company's Code of Conduct for all personnel and Directors.
13. We held regular Committee Meetings and also met with the external and internal auditors, without the presence of the members of the Board, to comment on the development of their work, limitations they might have had, and to facilitate any private communication they might wish to have with the Committee.
14. We presented to the Board of Directors reports on the activities conducted by the Committee on a quarterly basis.
15. The work we carried out was duly documented in the minutes prepared for each meeting, which were reviewed and approved in a timely manner by the Committee members.

Sincerely,

C.P.C. JOSÉ MANUEL CANAL

PRESIDENT

Planning and
Finance
Committee

To the Board of Directors of ALSEA, S.A. de C.V.

Pursuant to Article 14 of the Securities Market Law and on behalf of the Committee on Planning and Finance, I hereby inform of the activities we carried out related to the fiscal year ending December 31, 2003. In the development of our work, we have kept in mind the recommendations established by the Code of Good Corporate Practices. The Statutory Examiner of the Company was invited in accordance with the aforementioned law and was present at most of the Committee meetings held.

In order to comply with the responsibilities of this Committee, we carried out the following activities:

1. The Committee's commitments with respect to its responsibilities, functions, and structure were updated and confirmed.
2. Committee on Planning and Finance regulations were authorized.
3. General outlines were established for the development of Alsea's Strategic Plan 2004-2008.
4. The Stock Option Plan for Executives was evaluated and ordered.
5. General premises were established for drawing up the budget for fiscal year 2003.
6. The budgets for 2004 for each of the companies that make up Alsea were reviewed with the purpose of validating them before their presentation to the Board of Directors. Those budgets are expected to be authorized by the Board of Directors during the present session.
7. Financial projections for 2007 were followed up on.
8. The methodology for determining the opportunity cost of shareholder capital was precisely defined.
9. The optimum Capital structure for Alsea was defined as a combination of 85% Capital and 15% Debt.
10. Investment policies for Treasury Surpluses as well as for Dollar Investments were defined and authorized, and were presented in their corresponding formats.
11. Assessments conducted on each pertinent occasion for removal from the company were reviewed.
12. The comparative profitability model of the different Alsea brands was presented. (Benchmark)
13. Investment alternatives generated by Alsea's Chairman of the Board and CEO in 2003 were evaluated with an opinion issued in each case.

Sincerely,

SALVADOR CERON AGUILAR

PRESIDENT

Assessment and Compensation Committee

Pursuant to Article 14 of the Securities Market Law and on behalf of the Committee on Assessment and Compensation, I hereby inform you of the activities we carried out relating to the fiscal year ending December 31, 2003. In the conduct of our work, we have kept in mind the recommendations established in the Code of Best Corporate Practices. The Statutory Examiner was invited in accordance with the aforementioned law and was present at the meetings we held.

In several meetings with the Human Resources Department, review was made to continue the policies established by this Committee and authorized by the Board of Directors, with reference to the following:

1. Evaluation and compensation of the Chief Executive Officer and high-level officers.
2. Evaluation criteria in accordance with the general outlines established by the Board of Directors.
3. Amount of remuneration to principal executives.
4. Regular evaluation of the performance of the Chief Executive Officer and high-level officers.
5. Policies of remuneration of strategic employees.

A review of the performance and bonus program for the year 2004 was carried out.

All of the above activities are duly documented in minutes prepared for each meeting, which were reviewed and approved by the Committee members.

Sincerely,

FRANCISCO GAMA

PRESIDENT

Marketing Committee

Pursuant to Article 14 of the Capital Markets Law and on behalf of the Marketing Committee, I hereby report on the activities conducted during the year ended December 31, 2003. In the development of our work, we have taken into account the recommendations set out in the Best Corporate Practices Code. Furthermore, the Company's Statutory Auditor was sent a call to the Committee meetings upon the terms of the aforementioned law and was in attendance thereat.

Over the course of several meetings, general guidelines were laid down for the marketing area, focusing on the following items, authorized by the Board of Directors, namely:

1. Focus on flavor.
2. Pricing policy that ensures a suitable profit considering the 2003 fiscal emergency.
3. Refocusing strategy towards innovation.
4. Analysis and approval of advertising campaigns launched by Domino's Pizza during the year.

All the aforementioned work has been duly documented in minutes to each meeting, which were reviewed and approved by the members of the Committee.

Sincerely,

MARCELO RIVERO GARZA

PRESIDENT

REPORT OF STATUTORY AUDITOR

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

(Translation from original issued in Spanish)

México City, February 20, 2004.

To the General Stockholders' Meeting of
Alsea, S. A. de C. V.

In my capacity as Statutory Auditor and in compliance with the provisions of Article 166 of the Mexican General Companies Law and the Company's by-laws, I hereby submit my report on the veracity, sufficiency and reasonability of the financial information prepared by and under the responsibility of the company's management, present to you by the Board of Directors concerning the company's operations for the year ended December 31, 2003.

I have attended the Intermediate Committee, the Board of Directors' and Stockholders' meeting of which I have been summoned. I have obtained from the Directors and Administrators the operating information, documentation and accounting records that I considered it necessary to examine.

I have carefully reviewed the report issued by the company's external auditors, KPMG Cardenas Dosal, S.C., date February 20, 2004, in connection with the examination which they carried out, in accordance with generally accepted auditing standards, of the financial statements prepared by the company's management.

In my opinion, the accounting and reporting policies and criteria followed by the company and applied by management in preparing the financial information to be submitted to this meeting are appropriate and adequate and have been applied on a basis consistent with that of the previous year; therefore, such information correctly, fairly and adequately present the financial position of Alsea, S. A. de C. V., as an independent legal entity, at December 31, 2003 and the results of its operations, the changes in its stockholders' equity and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in México.



MAXIMINO MANUEL SADUÑO BOLAÑOS
STATUTORY AUDITOR

INDEPENDENT AUDITORS' REPORT

Alsea S. A. de C. V. and Subsidiaries
(Translation from Spanish Language Original)

February 20, 2004

The Board of Directors and Stockholders
Alsea, S. A. de C. V.:

We have examined the accompanying consolidated balance sheet of Alsea, S. A. de C. V. and Subsidiaries as of December 31, 2003 and the related consolidated statements of income, stockholders' equity and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements as of and for the year ended December 31, 2002 were audited by other independent public accountants whose report thereon dated February 4, 2003 expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are prepared in accordance with accounting principles generally accepted in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alsea, S. A. de C. V. and Subsidiaries as of December 31, 2003, and the results of their operations, the changes in their stockholders' equity and the changes in their financial position for the year then ended in conformity with accounting principles generally accepted in Mexico.

KPMG CARDENAS DOSAL, S. C.



JAVIER MORALES RÍOS

PARTNER

CONSOLIDATED BALANCE SHEETS

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

December 31, 2003 and 2002

(Thousands of constant Mexican pesos as of December 31, 2003)

Assets	2003	2002
Current assets:		
Cash	\$ 195,646	207,086
Accounts receivable:		
Clients, less allowance for doubtful of \$5,977 in 2003 and \$4,404 in 2002	109,260	66,033
Recoverable taxes	48,826	44,965
Other	17,442	55,527
Associated company (note 5)	34,095	4,233
Inventories, net (note 6)	107,859	69,955
Prepaid expenses	16,285	14,974
Total current assets	529,413	462,773
Investment in shares of associated companies (note 7)	70,770	47,076
Goodwill of subsidiaries and associated companies	53,314	77,753
Property, equipment and leasehold improvements, net (note 8)	832,306	832,294
Other assets:		
Patents and trademarks, less accumulated amortization of \$76,993 in 2003 and \$64,917 in 2002	156,890	155,160
Preoperating expenses, less accumulated amortization of \$15,426 in 2003 and \$8,010 in 2002	37,541	38,612
Other assets, net	10,426	9,426
Assets from discontinued operations (note 2c.)	18,842	28,346
	\$ 1,709,502	1,651,440

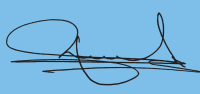
See accompanying notes to the consolidated financial statements.

Liability and Stockholders' Equity

	2003	2002
Short-term liability:		
Bank loans (note 9)	\$ 23,957	36,073
Short-term maturity of medium-term promissory note (note 9)	100,000	-
Suppliers	186,355	227,286
Accounts payable and accrued liabilities	29,137	36,570
Accruals	29,772	16,598
Tax payables and employee statutory profit sharing	8,380	9,073
Total short-term liability	377,601	325,600
Bank loans, without short-term maturity (note 9)	18,950	30,034
Medium-term promissory note (note 9)	-	104,350
Seniority premium, other benefits and other liabilities (note 10)	8,254	10,861
Deferred income tax and long-term payable on retained earnings (note 12)	101,853	68,241
Liability from discontinued operations (note 2c.)	10,453	4,985
Total liability	517,111	544,071
Stockholders' equity (note 13):		
Capital stock	383,007	386,959
Additional paid-in capital	231,437	231,437
Retained earnings	507,855	434,560
Reserve for acquisition of own shares	33,827	41,590
Translation effect from foreign entity	(3,975)	(14,093)
Majority stockholders' equity	1,152,151	1,080,453
Minority interest	40,240	26,916
Total stockholders' equity	1,192,391	1,107,369
Commitment and contingent liabilities (note 14)		
Subsequent events (note 16)		
	\$ 1,709,502	1,651,440



LIC. JOSÉ RIVERA RÍO ROCHA
FINANCING CORPORATIVE DIRECTOR



C.P. ALBERTO TORRADO MARTÍNEZ
GENERAL DIRECTOR



C.P. ABEL BARRERA FERMÍN
CORPORATIVE COMPTRROLLER

CONSOLIDATED STATEMENTS OF INCOME

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

Years ended December 31, 2003 and 2002

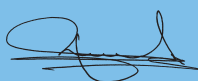
(Thousands of constant Mexican pesos as of December 31, 2003)

	2003	2002
Net sales	\$ 2,729,813	2,627,916
Cost of sales	<u>1,194,188</u>	<u>1,160,823</u>
Gross profit	1,535,625	1,467,093
Operating expenses	<u>1,294,397</u>	<u>1,197,183</u>
Operating income	241,228	269,910
Comprehensive financial results (note 11)	(4,448)	(18,219)
Other expenses, net	<u>(31,270)</u>	<u>(9,074)</u>
Income from continuing operations, before income taxes and employee statutory profit sharing	<u>205,510</u>	<u>242,617</u>
Income tax and employee statutory profit sharing (note 12):		
Income tax	80,613	75,919
Employee statutory profit sharing	<u>764</u>	<u>1,857</u>
Total income tax and employee statutory profit sharing	<u>81,377</u>	<u>77,776</u>
Income from continuing operations, before equity in the income of associated companies	124,133	164,841
Equity in the income of associated companies (note 7)	<u>9,411</u>	<u>3,501</u>
Income from continuing operations	133,544	168,342
Loss from discontinued operations, net of taxes (note 2c.)	<u>(16,457)</u>	<u>(29,356)</u>
Net consolidated income	<u>117,087</u>	<u>138,986</u>
Minority interest	<u>(4,739)</u>	<u>(9,941)</u>
Net majority income	<u>\$ 121,826</u>	<u>148,927</u>
Net earnings per share (note 3t.)	<u>\$ 1.04</u>	<u>1.24</u>

See accompanying notes to the consolidated financial statements.



LIC. JOSÉ RIVERA RÍO ROCHA
FINANCING CORPORATIVE DIRECTOR



C.P. ALBERTO TORRADO MARTÍNEZ
GENERAL DIRECTOR



C.P. ABEL BARRERA FERMÍN
CORPORATIVE COMPTROLLER

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Alsa S. A. de C. V. and Subsidiaries

Years ended December 31, 2003 and 2002

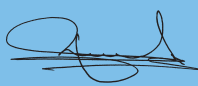
(Thousands of constant Mexican pesos as of December 31, 2003)

	2003	2002
Operating activities:		
Net income	\$ 117,087	138,986
Add charges (deduct credits) to income not requiring (providing) funds:		
Depreciation and amortization	141,629	113,993
Amortization of goodwill of subsidiaries and associated companies	11,864	6,572
Write-down of investment and cancellation of goodwill of subsidiaries companies	37,129	-
Seniority premium and other benefits	348	376
Equity in the results of associated companies	(9,411)	(3,501)
Deferred income tax and employee statutory profit sharing	37,289	7,405
	<hr/>	<hr/>
Funds provided by operations	335,935	263,831
Net financing from (investing in) operating accounts:		
Clients	(43,227)	25,906
Other accounts receivable and prepaid expenses	32,913	8,831
Inventories	(37,904)	16,464
Associated company	(29,862)	(2,788)
Suppliers, accounts payable, accrued liabilities and other accounts payable	(38,692)	79,425
Taxes payable and employee statutory profit sharing	(4,370)	6,568
	<hr/>	<hr/>
Funds (used in) provided by operating activities	(121,142)	134,406
Financing activities:		
Increase in capital stock and minority interest	18,063	32,430
Repurchase of own shares	(15,627)	(17,752)
Payment of loans, net	(27,550)	(60,650)
Seniority premium and other benefits payments	(121)	(34)
Dividends declared	(44,619)	(10,761)
	<hr/>	<hr/>
Funds used in financing activities	(69,854)	(56,767)
Investing activities:		
Acquisition of property, equipment and leasehold improvements	(89,281)	(117,674)
Discontinued operations, net	(4,202)	48,727
Effect of desincorporation of subsidiaries	-	(42,928)
Investment in shares of associated companies, net of dividends collected	(14,283)	(43,575)
Translation effect from foreign entity	10,118	(4,630)
Patents, trademarks, pre-operating expenses and other assets	(54,019)	(46,430)
Goodwill of subsidiaries and associated companies, net	(4,712)	(28,433)
	<hr/>	<hr/>
Funds used in investing activities	(156,379)	(234,943)
(Decrease) increase in cash	(11,440)	106,527
Cash:		
At beginning of year	207,086	100,559
At end of year	<hr/> \$ 195,646	<hr/> 207,086

See accompanying notes to the consolidated financial statements.



LIC. JOSÉ RIVERA RÍO ROCHA
FINANCING CORPORATIVE DIRECTOR



C.P. ALBERTO TORRADO MARTÍNEZ
GENERAL DIRECTOR



C.P. ABEL BARRERA FERMÍN
CORPORATIVE COMPTRROLLER

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

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

Years ended December 31, 2003 and 2002

(Thousands of constant Mexican pesos as of December 31, 2003)


				Retained earnings
	Capital stock	Additional paid-in capital	Statutory reserve	Retained earnings
Balances as of December 31, 2001	\$ 391,167	229,104	5,522	290,872
Increase in capital stock and minority interest (note 13)	1,030	2,333	-	-
Repurchase of own shares (note 13)	(5,238)	-	-	-
Transfer to the statutory reserve	-	-	1,585	(1,585)
Dividends declared (\$0.0829 per share) (note 13)	-	-	-	(10,761)
Effect of desincorporation of subsidiaries (note 2c.)	-	-	-	-
Comprehensive income	-	-	-	148,927
Balances as of December 31, 2002	386,959	231,437	7,107	427,453
Increase in minority interest (note 13)	-	-	-	-
Repurchase of own shares (note 13)	(3,952)	-	-	(3,912)
Transfer to the statutory reserve	-	-	7,334	(7,334)
Dividends declared (\$0.3625 per share) (note 13)	-	-	-	(44,619)
Comprehensive income	-	-	-	121,826
Balances as of December 31, 2003	\$ 383,007	231,437	14,441	493,414

See accompanying notes to the consolidated financial statements.

Total	Reserve for acquisition of own shares	Translation effect from foreign entity	Total majority stockholders' equity	Minority interest	Total stockholders' equity
296,394	54,104	(11,217)	959,552	50,718	1,010,270
-	-	-	3,363	29,067	32,430
-	(12,514)	-	(17,752)	-	(17,752)
-	-	-	-	-	-
(10,761)	-	-	(10,761)	-	(10,761)
-	-	-	-	(42,928)	(42,928)
148,927	-	(2,876)	146,051	(9,941)	136,110
434,560	41,590	(14,093)	1,080,453	26,916	1,107,369
-	-	-	-	18,063	18,063
(3,912)	(7,763)	-	(15,627)	-	(15,627)
-	-	-	-	-	-
(44,619)	-	-	(44,619)	-	(44,619)
121,826	-	10,118	131,944	(4,739)	127,205
507,855	33,827	(3,975)	1,152,151	40,240	1,192,391



LIC. JOSÉ RIVERA RÍO ROCHA
FINANCING CORPORATIVE DIRECTOR



C.P. ALBERTO TORRADO MARTÍNEZ
GENERAL DIRECTOR



C.P. ABEL BARRERA FERMÍN
CORPORATIVE COMPTROLLER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2003 and 2002

(Thousands of constant Mexican pesos as of December 31, 2003)

Note 1. Description of business-

Alsea, S. A. de C. V. and Subsidiaries ("Alsea" or "the Company") is mainly engaged in operating fast-food stores and restaurants. In Mexico, Alsea operates Domino's Pizza, Starbucks Coffee and Burger King. In Brazil, it operates Domino's Pizza. The operation of its multi-units is supported by its distribution division ("DIA").

Note 2. Principles of consolidation and equity method-

- (a) The consolidated financial statements include the financial statements of Alsea, S. A. de C. V. and those subsidiary companies in which it holds a majority interest (over 50%) and/or has control. All significant intercompany balances and transactions have been eliminated in consolidation. The consolidation was based on the audited financial statements of the issuing companies, which were prepared in accordance with Accounting Principles Generally Accepted in México (Mexican GAAP).

The principal operating Subsidiaries and Associated companies are the following:

	OWNERSHIP	ACTIVITY
Operating		
Operadora DP de México, S. A. de C. V.	99.99%	Domino's Pizza stores
Café Sirena, S. de R. L. de C. V.	82.00%	Starbucks Coffee stores
De Libra, Ltda. (in Brazil)	99.99%	Domino's Pizza stores
Distribuidor Internacional de Alimentos, S. A. de C. V.	99.99%	Food distribution
Associated		
Operadora West, S.A. de C. V.	31.56%	Burger King restaurants
Cool Cargo, S. A. de C. V.	50.00%	Transportation services

The Company's investment in shares of associated companies has been accounted under the equity method of accounting, based on audited financial statements prepared under the same accounting policies as those of the holding company (see note 7).

(b) Significant transactions-

- Value-added Tax (VAT) Law amendments in force since January 2003 consider take out sales food taxable. These amendments had a significant effect on the Company's operations. However, the implementation of several strategies allowed the Company to continue operating at its regular profit margins.
- During 2003 and through consecutive contributions, the Company increased its shareholding at Operadora West, S. A. de C. V. from 28.50% to 31.56%.
- In February 2002, the Company entered into an association agreement with Starbucks Coffee International Inc. for promoting and developing the Starbucks Coffee trademark in Mexico. At the end of 2003 and 2002 the Company operated 22 and 4 stores, respectively.

(c) Discontinued operations-

In January 2003 the Board of Directors resolved to desincorporate the subsidiaries: Exim del Caribe, S. A. de C. V. (Exim) and Para Servirle a Usted, S. A. de C. V. (PSU) as they were deemed no strategic. As a result, the Company recognized its investment in Exim at estimated selling value and charged \$19,174 to income in 2003. Also in 2003, the Company sold PSU, recognizing a loss of \$3,513 in the income statements. (See note 3a).

Note 3. Summary of significant accounting policies -

(a) Financial statement presentation

The accompanying consolidated financial statements have been prepared under Mexican GAAP and are expressed in Mexican pesos of constant purchasing power, based on the Mexican National Consumer Price Index (NCPI), except for the matter referred to in paragraph (b) below.

The financial statements for the year ended December 31, 2002 include certain reclassifications to conform to the classifications used in 2003. Also, the financial statements for 2002 have been restructured for presenting the net result of discontinued operations and the balance sheet balances in a specific caption without identifying current and non-current amounts, due to their immateriality.

(b) Presentation of prior year amounts-

The figures of previously reported financial statements are stated in Mexican pesos of the same purchasing power, using a common restatement factor of 1.0435 and 1.0555 in 2003 and 2002, respectively, for asset, liability and results captions. Stockholders' equity is restated using a factor derived from the NCPI, which was 1.0397 and 1.0570 in those same years. The common factor was calculated using a weighted average of sales and considering inflation and fluctuations in the exchange rate.

(c) Foreign currency translation adjustment of subsidiaries

The financial statements of consolidated foreign subsidiaries have been adjusted for inflation in the respective country (Brazil) and, subsequently, translated into Mexican pesos at the exchange rate prevailing at year end (balance sheet and income statement accounts). The exchange rate of the peso to the dollar used by the Company is based on a weighted average of market exchange rates available for the settlement of transactions denominated in foreign currencies.

The "Effects of translating foreign currency financial statements" in stockholders' equity represents the translation into pesos of financial information of foreign subsidiaries.

(d) Cash-

Includes all checking accounts, foreign currency and other highly liquid instruments. Interest income and expense and foreign exchange gains and losses are included in the results of operations, under comprehensive financial results.

(e) Inventories and cost of sales-

Originally valued using the last-in, first-out method and adjusted for inflation to replacement cost based on factors derived from the NCPI. Inventory values thus determined do not exceed market values.

(f) Goodwill of subsidiaries and associated companies

Represents the excess of cost over the fair value of assets of the investment in shares of subsidiaries and associated companies, is adjusted using NCPI factors and amortized straight-line during the time the benefit of the investment is likely to materialize.

(g) Property, equipment and leasehold improvements-

There are initially recorded at acquisition cost and adjusted for inflation by applying NCPI factors. Depreciation on property, equipment and leasehold improvements is calculated on the straight-line method over the estimated useful lives of the assets, at the following annual rates:

Buildings	5%
Store equipment	10%
Leasehold improvements	7.7% to 10%
Transportation equipment	25%
Computer equipment	30%
Production equipment	10%
Office furniture and equipment	10%

During 2003, the management of Operadora DP, S. A. de C. V. and Café Sirena, S. de R. L. de C. V. decided to change the amortization rate of leasehold improvements from 5% to 7% and from 20% to 10%, respectively in order to adjust their useful life to their current operations. The net effect of this change resulted in a charge to income of approximately \$8,750 in 2003.

(h) Intangible assets-

Represent payments for the right to use the trademarks "Domino's Pizza" and "Starbucks Coffee" up to 2025 and 2021, respectively, and adjusted for inflation based on NCPI factors applied to historical costs. Patents and trademarks are amortized straight-line at the annual rate of 5%. During 2003 the Company acquired patents and trademarks for \$13,806.

Expenses incurred in placing medium-term promissory notes in the securities markets are amortized over the maturing of the notes.

(i) Other assets-

Include mainly pre-operating and installation expenses relating to the opening of new stores in different areas and are stated at cost, adjusted for inflation based on NCPI factors. Amortization is computed on adjusted asset values using the straight-line method, at the annual rate of 5%.

- (j) **Accruals-**
The Company recognizes accruals for present obligations in which the transfer of assets or the rendering of services is virtually unavoidable and arises as a consequence of past events, principally salaries and other amounts payable to employees.
- (k) **Seniority premium and other post retirement plans-**
Pension and seniority premium benefits to which employees are entitled in accordance with the law are charged to operations for the year based on actuarial computations of the present value of this obligation. Amortization of prior service cost, not yet recognized, is based on the estimated service lives of existing personnel.
- Other compensation to which employees may be entitled, mainly severance, is charged to operations as incurred.
- (l) **Income (IT) and asset (AT) taxes, and employee statutory profit sharing (ESPS)-**
Provisions for IT and ESPS are recorded in the year in which they are due. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit (AT) carryforwards. Deferred tax assets are only recorded when it is likely to be recovered. Deferred ESPS is recognized only for timing differences arising from the reconciliation of book income to income for profit sharing purposes, on which it may be reasonably estimated that a future liability or benefit will arise and there is no indication that the liabilities or benefits will not materialize.
- (m) **Restatement of capital stock, other stockholder contributions and retained earnings-**
This adjustment is determined by multiplying stockholder contributions and retained earnings by factors derived from the NCPI, which measure accumulated inflation from the dates contributed or generated toward the most recent year end. The resulting amounts represent the constant value of stockholders' equity.
- (n) **Additional paid-in capital-**
Represents the excess of the payments for subscribed shares over their normal price.
- (o) **Comprehensive financial results (CFR)-**
Include all interest income and expense, foreign exchange gains and losses, and monetary position gains and losses, reduced by the amounts capitalized.
- Transactions in foreign currency are recorded at the exchange rate prevailing on the date of execution or settlement. Foreign currency assets and liabilities are translated at the exchange rate in force at the balance sheet date. Exchange differences arising from assets and liabilities denominated in foreign currencies are reported in operations for the year.
- Monetary position gains and losses are determined by multiplying the difference between monetary assets and liabilities at the beginning of each month, including deferred taxes, by inflation factors toward year end. The resulting amount represents the monetary gain or loss for the year arising from inflation, which is reported in operations for the year.
- (p) **Revenue recognition-**
Revenue from product sales is recognized at the time of delivering the products to the customers.
- (q) **Contingencies-**
Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the consolidated financial statements. Contingent revenues, earnings and assets are not recognized until their realization is virtually assured. Also, the Company considers the rules for disclosing commitments arising in the ordinary course of business.
- (r) **Impairment of long-lived assets property, equipment, leasehold improvements, goodwill and other intangible assets-**
The Company evaluates periodically the adjusted values of long-lived assets, property, equipment, leasehold improvements, goodwill and other intangible assets to determine whether there is an indication of potential impairment. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or realizable value.
- (s) **Use of estimates-**
The preparation of financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.
- (t) **Earnings per share-**
Earnings per share equal the year's net income divided by the weighted average of outstanding shares during the year.

(u) **New pronouncements-**

The Company adopted the new accounting pronouncements issued by the Mexican Institute of Public Accountants (IMCP) in Bulletins C-8 "Intangibles", C-9 "Liabilities, Accruals, Contingent Assets and Liabilities, and Commitments" and B-5 "Segment information", effective for fiscal years beginning on or after January 1, 2003 as well as in Bulletin C-15 "Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of", which adoption is encouraged for 2003. The adoption of these Bulletins had no significant effect on the presentation of the Company's financial information.

Note 4. Foreign currency exposure-

Monetary assets and liabilities denominated in U.S. dollars (dollars) as of December 31, 2003 and 2002 were as follows:

	THOUSANDS OF DOLLARS	
	2003	2002
Assets	4,741	1,092
Liabilities	5,615	2,779
Net liabilities	874	1,687

The exchange rate of the peso to the dollar, as of December 31, 2003 and 2002, was \$11.22 and \$10.36, respectively. At February 20, 2004, the exchange rate was \$10.84.

At December 31, 2003, the Company did not have foreign exchange hedge instruments.

At December 31, 2003 and 2002, the Company foreign origin non-monetary asset and liability position or which replacement cost may only be determined in dollars was immaterial.

Below is a summary of transactions carried out with foreign entities, for the years ended December 31, 2003 and 2002:

	THOUSANDS OF DOLLARS	
	2003	2002
Food purchases	52,860	47,543
Equipment purchases	1,818	1,433
Royalties	7,154	6,727

Note 5. Balances and transactions with associated company-

At December 31, 2003 and 2002, accounts receivable from Operadora West, S. A. de C. V. amounted to \$34,095 and \$4,233, respectively.

During the years ended December 31, 2003 and 2002, sales of food and supplies to Operadora West, S. A. de C. V. amounted to \$91,019 and \$65,914, respectively.

Note 6. Inventories-

Comprise the following:

	2003	2002
Food and beverages	\$ 74,466	56,576
Containers and packaging	13,125	4,404
Other	24,262	12,270
Less allowance for obsolete items	(3,994)	(3,295)
	\$ 107,859	69,955

Note 7. Investment in shares of associated companies-

Comprise the direct ownership in the capital stock of the companies listed as follows:

	EQUITY		EQUITY IN THE RESULTS OF OPERATIONS FOR THE YEAR	
	2003	2002	2003	2002
Cool Cargo, S. A. de C. V.	\$ 2,024	1,382	648	(196)
Operadora West, S. A. de C. V.	68,746	45,694	8,763	3,697
Total investment in shares	\$ 70,770	47,076	9,411	3,501

Note 8. Property, equipment and leasehold improvements-

Comprise the following:

	2003	2002
Buildings	\$ 77,768	83,872
Store equipment	338,340	333,769
Leasehold improvements	437,481	401,551
Transportation equipment	90,396	120,079
Computer equipment	87,966	89,220
Production equipment	108,728	92,757
Office furniture and equipment	24,463	19,724
	1,165,142	1,140,972
Less accumulated depreciation	384,503	340,511
	780,639	800,461
Land	31,589	31,703
Installations in progress	20,078	130
	\$ 832,306	832,294

Certain of the loans mentioned in note 9 are secured by some of the properties and equipment.

Note 9. Bank loans and medium-term promissory note-

Bank loans:

Comprise of the following:

	MATURITY IN	AVERAGE ANNUAL INTEREST RATE	2003	2002
Unsecured loans	2004-2005	1.7%-3.5%	\$ 32,375	42,175
Secured loan (note 8)	2003-2005	2.0%-2.5%	10,532	23,932
			42,907	66,107
Less current installments			23,957	36,073
Long-term debt			\$ 18,950	30,034

Medium-term promissory note:

In August, 2000, Alsea executed a medium-term promissory note for \$100,000, bearing interest at the TIE rate plus 2 to 4 points, maturing in August 2004.

Bank loans and the medium-term promissory note establish certain covenants, the most significant of which refer to limitations on dividend payments, maintaining certain financial ratios, not selling, pledging or disposing of fixed assets without reinvesting the sales proceeds for purchasing other new assets in the same or immediately succeeding year. At the date of the financial statements, the Company was in compliance with all covenants.

Note 10. Seniority premiums, other post retirement plans and other liabilities -

The Company has a defined seniority premiums plan covering substantially all of its employees. The benefits are based on years of service.

The cost of the seniority premium plan have been determined based on computations prepared by independent actuaries. Plan contributions during 2003 and 2002 amounted to \$348 and \$376, respectively.

The actuarial present value of benefit obligations is as follows:

	2003	2002
Accumulated benefit obligation (ABO)	\$ 994	827
Projected benefit obligation (PBO)	\$ 1,074	968
Net projected liability	\$ 1,054	827
Additional liability	7,200	10,034
Seniority premium, other post retirement plans and other liabilities	\$ 8,254	10,861

Assumptions used in determining the net periodic cost of the plan are as follows:

	2003	2002
Rate of compensation increase	0.5%	1.0%
Discount rate	4.5%	4.5%

Note 11. Comprehensive financial results-

Comprise the following:

	2003	2002
Interest expense, net	\$ (5,022)	(16,093)
Foreign exchange loss, net	(137)	(3,144)
Monetary position gain	711	1,018
	\$ (4,448)	(18,219)

Note 12. Income (IT) and asset (AT) taxes, employee statutory profit sharing (ESPS) and tax loss carryforwards-

The Company consolidates its results for IT and AT purposes.

For the years ended December 31, 2003 and 2002 the Company had a consolidated net income of \$75,342 and \$134,453, respectively. The accounting and taxable income vary because of the different tax and accounting treatment for recognizing the effects of inflation, the deduction of purchases over the cost of sales, different depreciation and amortization rates, nondeductible expenses, accruals and others.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities, at December 31, 2003 and 2002, are presented below:

	2003	IT	2002
Deferred tax (assets) liabilities:			
Allowance for doubtful accounts	\$ (1,972)		(1,600)
Accruals	(4,266)		(3,759)
Advances from customers	(2,328)		(3,406)
Seniority premium	(328)		(281)
Net operating tax loss carryforwards	(1,604)		(7,343)
Recoverable AT	(3,822)		(7,398)
Inventories	34,617		26,566
Property, equipment and leasehold improvements	25,534		11,477
Prepaid expenses	1,636		3,299
Other assets	41,081		33,323
Net deferred tax liability	88,548		50,878
Income tax payable on retained earnings	13,305		17,363
Liability recognized on the balance sheets	\$ 101,853		68,241

IT and ESPS charged to income is analyzed as follow:

	2003		2002	
	IT	ESPS	IT	ESPS
Current IT and ESPS	\$ 42,943	1,145	77,612	1,857
Deferred IT and ESPS	37,670	(381)	(1,693)	-
Total	\$ 80,613	764	75,919	1,857

The Company has tax loss carryforwards of \$57,670, which, restated, may be carried forward to offset taxable income of the ten succeeding years. At December 31, 2003 Alsea has paid AT in the amount of \$7,680, for which it may request a refund, provided that IT payable in any of the ten succeeding years exceeds the AT of such years.

The Mexican IT Law provides that the IT rate will be reduced 1% each year beginning in 2003 to reach 32% in 2005. As a result of the changes in IT rate, in the years ended December 31, 2003 and 2002 the Company recognized a decrease in net deferred tax liabilities of \$516 and \$5,150, respectively credited income.

Note 13. Stockholders' equity-

The principal characteristics of stockholders' equity are described below:

(a) Structure of capital stock -

At the General Ordinary and Extraordinary Stockholders' Meeting held in April 2003, it was agreed to declare dividends in the amount of \$44,619 (\$42,815 historical).

At the General Extraordinary and Ordinary Stockholders' Meetings held in April 2002, it was resolved to increase the capital stock by \$1,030 (\$962 historical), through the issue of 481,231 ordinary series, common class II shares, with no par value; also, it was proposed to declare an additional paid-in capital of \$2,333 (\$2,165 historical).

The minimum fixed portion of capital stock is represented by Class I shares while the variable capital stock is represented by Class II shares, which in no event shall exceed ten times the minimum capital stock with no right for withdrawal.

At December 31, 2003 the subscribed fixed and variable capital stock is represented by 116,769,017 common, registered shares with no par value, as shown as follows:

NUMBER OF SHARES	DESCRIPTION	AMOUNT
122,289,370	Fixed capital stock	\$ 244,579
1,139,088	Variable capital stock	2,278
(6,659,441)	Repurchased shares reserve	(13,319)
<u>116,769,017</u>	Nominal capital stock	<u>233,538</u>
	Inflation adjustments to remeasure accumulated inflation (note 3m.)	<u>149,469</u>
	Capital stock at December 31, 2003	<u>\$ 383,007</u>

The National Banking and Securities Commission established a procedure which allows companies to purchase its own shares in the market. To this end, a "stock repurchase reserve" is required, which is charged to retained earnings.

The Board of Directors agreed to repurchase shares up to \$56,400. At December 31, 2003, the available balance is \$22,573.

The Company's own available repurchased shares are reclassified to the contributed capital.

(b) Restrictions on stockholders' equity-

Dividends paid out of retained earnings in the net tax profit (CUFIN) account shall be tax-free. Otherwise, they shall be subject to income taxes at the rate of 33%, payable on the amount that results from multiplying the dividends paid by the factor 1.4925. Taxes due on the payment of dividends not coming from the CUFIN account shall be paid by the Company and may be credited against corporate IT of the following two years.

At December 31, 2003, the tax value of the reinvested CUFIN account is \$20,470.

Note 14. Commitment and contingent liabilities-

Commitment:

The Company leases facilities for stores and distribution centers, as well as certain transportation equipment and store equipment, under defined term lease agreements. Total rental expense amounted to \$96,475 in 2003 and increases annually based on the NCPI.

Contingent liabilities:

- (a) Alsea and subsidiaries are involved in a number of lawsuits and claims arising in the ordinary course of business. It is expected that the final outcome of these matters will not have significant adverse effects on the Company's financial position.
- (b) In accordance with the Income Tax Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, since such prices must be similar to those that would be used in arm's-length transactions.

Note 15. Segment information-

The Company is organized into four large operating divisions comprised by pizza sale services (Domino's Pizza), coffee sale services (Starbucks Coffee), distribution services and other businesses, all led by the same management. The Company's segments constitute strategic business units offering various products and handled separately based on different marketing strategies and technology.

Segment information is as follows:

	AMOUNTS IN MILLIONS OF PESOS											
	BUSINESS UNITS											
	DOMINO'S PIZZA		STARBUCKS COFFEE		DISTRIBUTION		OTHER		ELIMINATIONS		CONSOLIDATED	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Revenue from:												
Third parties	\$ 1,819	1,799	76	6	865	845	6	17	(36)	(39)	2,730	2,628
Inter business unit	97	23	–	–	643	569	120	32	(860)	(624)	–	–
	1,916	1,822	76	6	1,508	1,414	126	49	(896)	(663)	2,730	2,628
Operating costs and expenses	1,666	1,552	80	11	1,369	1,302	106	37	(885)	(665)	2,336	2,237
Depreciation and amortization	111	92	8	1	24	23	11	5	1	–	153	121
Operating income	\$ 139	178	(12)	(6)	115	89	9	7	(10)	2	241	270
Other income statement items											(119)	(121)
Net consolidated income											122	149
Assets	1,152	1,029	63	42	502	439	1,493	1,280	(1,701)	(1,384)	1,509	1,406
Investment in productive assets:												
Investment in associated companies	–	–	–	–	2	1	70	46	–	–	72	47
Investment in assets	54	124	67	38	7	7	–	29	–	–	128	198
Total assets	\$ 1,206	1,153	130	80	511	447	1,563	1,355	(1,701)	(1,384)	1,709	1,651
Total liabilities	\$ 385	280	19	7	183	178	412	285	(482)	(206)	517	544

The “eliminations” caption is included for purposes of presenting each division’s comprehensive results.

Domino’s Pizza activities are conducted in Mexico and Brazil. Mexico accounts for approximately 94% of this segment’s total revenues.

Note 16. Subsequent events-

- (a) In January 2004, Alsea increased its equity interest in Operadora West, S. A. de C. V. (OWEST), a franchisee of Burger King Corporation, by 31.49% for a total of 63.05%. Consequently, as of such date the results of operations of OWEST are included in the consolidated financial statements.
- (b) In order to promote the exchange of the Company’s shares, and in conformity with corresponding securities rules, the Board of Directors agreed with a stock exchange broker the issuance of five million shares out of the repurchase shares stock off the exchange floor.



LIC. JOSÉ RIVERA RÍO ROCHA
FINANCING CORPORATIVE DIRECTOR



C.P. ALBERTO TORRADO MARTÍNEZ
GENERAL DIRECTOR



C.P. ABEL BARRERA FERMÍN
CORPORATIVE COMPTROLLER

INFORMATION FOR SHAREHOLDERS

(HEADQUARTERS)

Alsea S.A. de C.V.
Yucatan 23
Hipodromo Condesa,
06170, Mexico D.F.
Phone (55) 5241.7100

(INFORMATION ON ALSEA'S STOCK AND MEDIUM-TERM PROMISSORY NOTE)

Alsea, S.A. de C.V., trades its single series shares on the Mexican Stock Exchange as of June 25, 1999. Likewise, the Company's public offer of the medium-term promissory note took place on August 25, 2000.

(REFERENCE SYMBOLS FOR THE STOCK)

BMV	ALSEA*
Bloomberg	ALSEA*
Reuters	ALSEA.MX
Infotel	ALSEA*

(REFERENCE SYMBOLS FOR THE MEDIUM-TERM PROMISSORY NOTE)

BMV	ALSEA P00
Bloomberg	ALSEA
Reuters	ALEFLO0P=MX
Infotel	ALSEA

(INDEPENDENT AUDITORS)

KPMG Cardenas Dosal, S.C.
Bosque de Duraznos 55 P.J.
Bosques de las Lomas,
11700, Mexico D.F.
Phone (55) 5246.8300
Fax (55) 5596.8060

(CORPORATE GOVERNANCE)

One share, one vote
Dividends Policy: 30% of Accumulated Earnings
44% Independent Directors

(CONTACT)

Lizette Chang
Investor Relations
lchang@alsea.com.mx
Phone: (55) 5241.7158
www.alsea.com.mx



ALSEA, S.A. de C.V.
Yucatán 23, Hipódromo Condesa, 06170,
México D.F., Phone (55) 5241.7100
www.alsea.com.mx