2006 Annual Report

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Domino's Pizza Client

Emilia Suárez
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Cover: Elvira Vázquez Moreno.
Mexico City. Barista, Starbucks Coffee Masaryk

Investors, analysts, suppliers, employees and clients often ask us this question.

The answer is very simple,

More territories,
more units,
more opportunities,
more results,
more ALSEA...

and the commitment to make more people happy.

After 16 years of operations; the opening of 865 units; presence in four countries; sales in excess of $5.8 billion pesos; close to 17,000 employees; and more than 150 million satisfied customers per year, we would appear to have reached our goal... But we still proudly say that **the best of Alsea is yet to come.**

Alsea is the leading restaurant operator in Latin America operating brands of proven success such as Domino's Pizza, Starbucks Coffee, Burger King, Popeyes Chicken & Seafood and Chili's Grill & Bar. Its multi-unit operation is supported by its Shared Services Center, including the supply chain through DIA, real estate and development services, as well as administrative services such as finance, human resources and technology.

Mission
Our reason for being
To ensure the success of the Alsea brands, by employing a synergy and critical mass model, based on human talent and social responsibility.

"With people and for people"

Vision
Where we are headed
To be the best and largest restaurant operator with proven success brands in the countries in which we participate.

Values
What makes us great
- People, our most important asset
- Customer service
- Respect and loyalty
- Personal excellence
- Commitment
- Oriented to results

Strategic areas
We work for
- People are the most important
- To surpass the customer's expectations with operating excellency
- To be the market leader
- To be the best strategic partner
- To grow while keeping the Company and the shareholder's investment safe.
- Social responsibility

OUR BRANDS

"We make each pizza the best experience of the day"

"The Starbucks Coffee Experience"

"Commitment and passion towards the consumer"

"The best team, serving the best chicken"

"Make every moment a great one"

"Complete and on time"

new **territories**

Year 2006 undoubtedly witnessed a large step in our expansion towards Latin America, with the acquisition of all of the Burger King units in Argentina and Chile, as well as the successful opening of the first two Starbucks Coffee units in Brazil. This progress will serve as the fundamental basis for the future of our strategic growth plan towards the year 2011.

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Financial Highlights[1]

	%CAGR (6)	2006	%	2005	%	2004	%	2003	%	2002	%
Net Sales	18.2	5,808,116	100	4,496,196	100	3,858,903	100	3,087,369	100	2,972,124	100
Gross Profit	23.2	3,816,468	65.7	2,791,236	62.1	2,223,889	57.6	1,736,764	56.3	1,659,255	55.8
Operating Expenses	29.2	3,396,185	58.5	2,319,415	51.6	1,656,329	42.9	1,290,340	41.8	1,217,637	41.0
Operating Income	8.3	420,283	7.2	471,821	10.5	377,133	9.8	272,826	8.8	305,263	10.3
EBITDA (2)	21.8	970,990	16.7	682,757	15.2	567,560	14.7	446,424	14.5	441,619	14.9
Consolidated Net Profit	8.8	220,348	3.8	274,884	6.1	181,181	4.7	132,423	4.3	157,191	5.3
Total Assets		3,902,501	100	3,243,914	100	2,295,434	100	1,933,417	100	1,867,748	100
Cash		235,447	6.0	165,055	5.1	153,161	6.7	221,272	11.4	234,211	12.5
Liabilities with Cost		479,331	12.3	769,355	23.7	102,708	4.5	161,623	8.4	192,784	10.3
Majority Shareholder's Equity		2,558,087	65.5	1,767,498	54.5	1,483,157	64.6	1,303,062	67.4	1,221,972	65.4
EVA (3)		14,650		151,808		141,627		75,971		74,707	
ROIC (4)		15.8%		23.2%		26.2%		22.1%		20.4%	
ROE (5)		8.4%		15.2%		12.1%		10.2%		13.1%	
Stock Price	68.2	58.89		27.74		23.95		9.60		7.35	
Earnings per Share	2.3	1.45		2.04		1.31		1.18		1.32	
Dividend paid per Share		1.13		0.77		0.63		0.41		0.09	
Book Value per Share		16.42		12.94		11.93		11.16		10.29	
Shares Outstanding (millions)		155.8		136.6		124.2		116.8		118.8	
Number of Stores		865		728		626		560		518	
Employees		16,797		13,629		10,483		7,336		6,950	

(1) Figures in thousand of pesos, expressed in purchasing power as of December 31, 2006, except per share data, number of units and employees.
(2) EBITDA is defined as operating income before depreciation and amortization.
(3) EVA is defined as the operating income - net invested capital (total assets - cash and cash equivalents - liabilities without cost) times the cost of capital (considers an equity cost of 17%).
(4) ROIC is defined as the operating income divided by the net invested capital (total assets - cash and cash equivalents - liabilities without cost).
(5) ROE is defined as net profit divided by total stockholders equity.
(6) Compounded annual growth rate from 2002 to 2006.

To Our Shareholders

Alberto Torrado Martínez
CEO

We surveyed several Alsea investors and analysts, with regards to their primary concerns as to the future of our Company. This is what you asked us:

Why does ALSEA think it is able to successfully manage and exploit franchises of different brands on a large scale and to the maximum?

Through these years of operation, we have learned that in Alsea, we are good at replicating proven success concepts. This has led us to become a catalyst for growth, that carries an already proven formula to its maximum exponent. We have developed a unique business model in which DIA, our distribution company, assures the consistency of the products that we offer to the customers of the different brands of our portfolio, and reduces dependence on third parties, which contributes to always offering the consumers the best experience.

It is important to mention that we manage the brands independently and never pit the growth of one against the other. Each one focuses 100% on the stores' customer service and operation. This way, we permit Alsea to take charge of the Company's development and of all the support necessary for its growth, through the shared services center, granting the required human resources, management and technology services. Our business model is based on the critical mass generated by the growth of the brands, which provokes the generation of synergies and creates economies of scale that permit us to take advantage of the operative leverage, which have positive repercussions on our results.

What is Alsea's strategy for its expansion plan in Latin America for the next five years?

In Alsea, we like to set goals and to reach them. This is why we have a strategic plan towards 2011, that proposes the challenge of becoming the largest restaurant operator of successful brands in the countries in which we participate. In this sense, this plan contemplates Alsea's incursion into Brazil, Argentina, Chile and Colombia, through three of the brands in our portfolio: Domino's Pizza, Starbucks Coffee and Burger King, whose objective is to strengthen our position of leadership in Latin America.

Dear Shareholders: This time, we wanted to do more than simply send you a letter listing our achievements; we wanted to hear your concerns and share the response to some of the questions posed. We consider that this interview is the best way to be close to you.

What is the biggest limitation you see for future growth?

Without a doubt, it's people. Through our business model, we have assured the economic sufficiency to comply with the proposed growth plans; we have a development system that locates the best locations for the stores of the different brands, but without a doubt, the most important thing is to work with the right people who can offer our customers the service and quality that surpasses their expectations. For this, the most important strategic area is: "People are the most important", which requires us to focus on recruiting the best personnel and to furnish them with the best training and development that assure their permanence in the Company.

What do you think Starbucks Coffee will do in 2009 with respect to the purchase option it has, to increase its stake in the Joint Venture for Mexico?

Starbucks Coffee International currently owns 18% of the Joint Venture for Mexico, while Alsea owns the remaining 82%. Pursuant to the corresponding agreement, Starbucks Coffee International has the option of acquiring 32% of the capital stock, to reach an equity share of 50%. This right can be exercised in 2007 and 2008, under the assumption that the brand development plan is not fulfilled in Mexico, but in accordance with the success this brand has had, and the speed at which we have been able to grow in the first four years of operation, we do not see this happening. However, in 2009, Starbucks can exercise this option, regardless of whether the development plan is met. We believe that it will do so when the time comes.

Raquel Moscoso
Mexico City
IXE Casa de Bolsa analyst for Alsea

Favorite Chili's dish:
Chicken Crispers

Chili's, **What's next?**

According to our latest market studies, the casual dining segment in Mexico is worth more than $2 billion pesos; Alsea has a 9% market share, which represents an attractive opportunity for future growth.

Chili's Santa Fe, Mexico City

ALSEA in Mexico, **What's next?**

Mexico is the base of Alsea's operations and most surely in the future, will continue to be the market with the highest growth for our Company.

During 2006, upon celebrating the fourth anniversary of the Starbucks Coffee brand in Mexico, store number 100 was opened, reaffirming that Starbucks Coffee Mexico is one of the fastest growing markets.

402 corporate units and 151 sub-franchises of Domino's Pizza in Mexico at the end of 2006, and the remodeling of 34 units in accordance with the brand's new image and its innovative way of serving the customer in line with its new Mission.

Burger King Mexico grew 21% in its units, equal to the opening of 16 units.

We acquired the remaining 40% of our operations with the Chili's Grill & Bar brand, whose annual unit growth was 54%, equal to six restaurants.

We achieved an increase of 80% in the number of units with our brand, Popeye's Chicken & Seafood, and we refocused the brand strategy, which began to generate positive results.

What's next? We have the goal of reaching 1,276 units of our different brands in Mexico at the end of 2011, which means an average of 97 openings per year.

What's next? In 2007, we set the goal of opening more than one Starbucks store in Mexico every week, to reach 182 units at the end of the year.

What's next? We plan an average opening of ten Burger King units per year over the next five years.

What's next? We will continue with the innovation of products and improvement in the quality of service process in the Domino's Pizza units trough our renovation program "20/20", in order to maintain our position as market leaders in the future.

What's next? We expect a 35% growth in the number of Chili's Grill & Bar units in 2007.

In the future, Alsea will increase its presence in the casual dining market in Mexico, by opening units, acquiring existing brands and promoting new brands, with which we plan to consolidate our leadership position in the markets in which we participate.

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Chili's restaurants is the goal set for 2011, as part of the organic expansion of this brand.

ALSEA in Latin America, **What's next?**

In 2006, we decided to expand Alsea towards Latin America as one of the main axles of the Company's growth, which will accelerate our development towards 2011 and permit us to carry Alsea's name to new territories, through the brands in our portfolio.

We acquired all of the Burger King units in Argentina (27) and Chile (22), establishing the bases to accelerate the brand's growth in such territories.

Our operations in Latin America reached sales in excess of $330 million pesos in the eight months following this purchase.

We signed the Joint Venture Agreement to develop the Starbucks Coffee brand in Brazil, with the opportunity of taking the Starbucks experience to a country with such a rich coffee-growing tradition.

We successfully opened the first two Starbucks Coffee units in the City of São Paulo.

What's next? We define our expansion strategy towards Latin America through the incursion into four countries - Brazil, Argentina, Colombia and Chile - through the participation of three brands: Domino's Pizza, Starbucks Coffee and Burger King, in some of these countries.

What's next? For 2007, we plan to open six Burger King units in Argentina and four more in Chile, representing a combined growth of 20%.

Burger King, **What's next?**

With a potential market of approximately 280 million people in the countries selected for our strategy in Latin America, we are certain that the growth potential for the Burger King brand has huge dimensions.

Burger King 300. Guadalajara, Mexico

Diego Paolini
Chief Operating Officer,
Burger King Latin America

Favorite Burger King hamburger:
Double Whopper

The goal is to open an average of eight Burger King units in Argentina and Chile together during the next five years, for an annual compound growth of 13%.

92

Burger King units in Argentina and Chile is the goal that we have set for the year 2011.

Mauricio Rojas
Mexico City

Favorite pizza:
Hawaiian Pizza

Christopher Rojas
Mexico City

Favorite pizza:
Pepperoni Max

Domino's Pizza, **What's next?**

In 2007, we will have 66 more units operating under the "20/20" program, in addition to the 34 we already have at the end of 2006.

Domino's Pizza Guadalupe Inn. Mexico City

Our clients, **What's next for them?**

One of our most important objectives is our customers' satisfaction. This is why in Alsea, we identify the constant innovation of the products as a fundamental part of our commercial strategy, focused on always surpassing the consumers' expectations.

During 2006, we initiated an ambitious renovation program of the Domino's Pizza units in Mexico, denominated "20/20", which includes a new store image, delivery equipment, pizza boxes and uniforms; the launching of a new menu at the national level, with the introduction of other specialties in pizzas and desserts, as well as a line of salads to meet clients' requirements.

As an integral part of this renovating process of the Domino's Pizza brand, we started up a training program for the employees, focused on improving our image and our products, as well as the communication with the consumers, to increase service results.

We invested in remodeling customer service installations, such as the tables and playgrounds in several of our Burger King and Chili's brands, so as to offer comfortable spaces and improve the store image.

We were able to establish a closer relationship with our Starbucks Coffee clients, by opening more units every day, giving them the possibility of enjoying the Starbucks experience at a place closer to them.

What's next? During the next five years, as part of our strategic plan for 2011, we will continue to renovate the Domino's Pizza units in Mexico, and with the development of new product lines that will offer different flavor options, with the same quality as always.

What's next? We have established new renovation policies for our assets related to customer service, which will translate into constant improvements in our stores, so that they always surpass our consumers' expectations.

The "20/20" Domino's Pizza renovation plan does not only contemplate a change of image in our stores; it also contemplates a cultural transformation of the brand, focusing all efforts on the client's satisfaction, in accordance with the brand's new mission.

2,000

Domino's Pizza employees will be trained during 2007 as part of the cultural transformation of the brand, which seeks to surpass any consumer expectation, by providing the highest quality service.

Our employees, **What's next for them?**

"People are the most important" establishes Alsea's strategic plan in order to recruit, train and retain the best talent. Employees are our most important asset.

At the end of 2006, personnel increased by 23%, to close the year with a total of 16,797 employees, reaffirming Alsea's important role as a generator of employment in Mexico and more recently, in Latin America.

Recommendations derived from the "People Project" were implemented, to reduce the turnover of operative employees in Domino's Pizza.

Different steps were instrumented to increase competitive compensation for both the operative and administrative employees.

Continuity was established for the deferred compensation mechanisms to encourage retention at the executive level.

We inaugurated Alsea's state-of-the-art employees training facility for the brands of our portfolio. We will duplicate this model throughout the Country.

We invested unprecedented resources to strengthen the human resources structures throughout the organization.

Starbucks Coffee Mexico recently obtained recognition of second place among the 100 best companies to work for in Mexico. *

What's next? We will start up a solid process of development throughout Alsea, to assure that all of the employees have laid out their success path.

What's next? We will extend successful practices in Alsea and focus on the consumer of the Starbucks Coffee brand, to confirm the premise: "People are the most important".

* Granted by The Best Place to Work Institute.

Starbucks Coffee, **What's next?**

In 2007, we will implement the "Succession Program", to motivate the permanence of our employees in the Company.

Starbucks Coffee Plaza Caracol. Cancun, Mexico

In addition to offering labor development opportunities, the "Succession Program" is an instrument to assure the growth of our people, as the business grows.

70

Starbucks Coffee Mexico employees will graduate as Coffee Masters, which will accelerate their development in the organization and will contribute to the promotion of a true coffee culture in Mexico.

Emilia Suárez
Mexico City
Popeye's client

Favorite Food:
Chicken strips
with chips

Popeyes, **What's next?**

In accordance with our market studies in 2006, the chicken segment in Mexico is worth more than $6.0 billion pesos, which without a doubt we see as a great opportunity.

Popeyes Coacalco, Mexico City

New opportunities, **What's Next?**

Throughout this year, we have concentrated on promoting the growth of our brands that have proven to be successful and we have stressed the search for new development opportunities, such as the case of the acquisitions of sub-franchisees of Domino's Pizza; other Burger King franchisees; the search for opportunities in other segments and categories that currently do not form a part of Alsea, such as sandwiches, Mexican food, juices and salads, as well as the incessant search for a larger share of the important chicken segment in Mexico.

At the end of this year, we acquired the assets of a Domino's Pizza sub-franchisee who had six stores in operation in Mexico City.

In 2006, we opened four Popeye's units, reaching a growth of 80% in units with respect to the prior year. This was an important step on the way to converting us into a leading operator in the attractive chicken consumption segment in Mexico.

What's next? We will continue to search for new business opportunities that permit Alsea to expand their operations in Mexico, such as the possible incursion into the Mexican food category, that is worth more than $3.7 billion pesos.

What's next? We will continue to analyze very closely, Alsea's possible participation in the sandwich category, which has recently shown strong growth, reaching a value worth more than $1.1 billion pesos.

What's next? If the trend in the results of our Popeye's units continues, we will redefine the strategic growth plan of this brand, showing a substantial acceleration in its development.

What's next? We will increase our market share in hamburgers, which we estimate to be worth more than $6.0 billion pesos.

In the future, we will seek to consolidate ourselves as a strong player in this segment; we will increase our territorial presence and offer a product and a service that surpasses consumers' expectations.

33%

Is the projected growth for Popeye's in the number of units for 2007, representing the opening of three additional stores.

ALSEA Shared Services, **Whats next?**

The incorporation of the most innovative IT, distribution and production systems has been an essential part of the Company's development. This is why we shall continue to modernize the Alsea platform.

Several improvements were made in the DIA distribution centers, including the refrigeration chambers, freight maneuvering patios and facilities, among others, to assure excellent service in the matter of supplying the brands in our portfolio.

We incorporated the purchasing and customer service module into our technological system, which will increase the levels of quality with which DIA serves the brands in our portfolio.

We concluded the "Integra Project", achieving the complete tie-in of our Burger King and Chili's Grill & Bar operations into our technological platform and into the model of Alsea's shared services.

We concluded the inclusion of Burger King and Chili's Grill & Bar into Alsea's personnel administration system, thereby automating the personnel management processes.

What's next? We will make strong investments in a new line of production of par-baked dough, to make production more efficient, which will translate into savings in production costs.

What's next? During 2007, we will initiate the integration of the Burger King Chile and Argentina processes, into Alsea's technological platform, to achieve greater efficiency in processes, thereby increasing productivity in our operations in such countries.

What's next? We began to develop and implement a new processing project called the Alsea Model, which integrates, standardizes and aligns the business components to comply with the Company's and its brands' strategic objectives, permitting us to reach the desired results and to create value for the customers, by optimizing the cost of such processes.

DIA, **What's next?**

During 2007, we will invest in our Mexico city distribution center, adding an additional 5,000 sq. meters of warehouse space and refrigeration chambers. Additionally, we will invest in the construction of a new Distribution Center in Hermosillo, Mexico.

Agustín Irigoyen
Managing Director,
Mexico City
Distribution Center

Six years colaborating with Alsea

Using the Alsea Model, we will assure an orderly growth based in process and technology, that will contribute significantly to complying with the goals established by the Company for the future.

185

processes of the different operating and administrative areas that comprise Alsea and its brands will be incorporated, standardized and aligned throughout 2007.

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Remote communities will be attended in Oaxaca, Veracruz and San Luis Potosi.

ALSEA Foundation, **What's next?**

Fundación Alsea A.C. will help 9,500 poverty-stricken children, teenagers and adults, through Socios por Mexico.

Social responsibility, **What's next?**

The Fundación Alsea A.C. (Alsea Foundation) will be characterized in 2007 by the increase in the coverage of the population it will benefit, in addition to being a year of great importance to affirm the position social responsibility of our brands.

In 2006, the Fundación Alsea A.C., along with the Fondo para la Paz I.A.P. (The Peace Fund), favored 2,157 families in the States of Oaxaca, Veracruz and San Luis Potosi, through the Socios por Mexico (Partners for Mexico) program, delivering 450 dry toilets, 1,410 poultry farms, 315 ecological stoves and 2,185 trained people in educational workshops.

Through the Patronato Prozona Mazahua A.C. (the Prozona Mazahua Sponsorship), we benefitted 40 indigenous families, in our quest to fight poverty and exclusion, and to strengthen the ecological rescue of this Mazahua indigenous zone in the states of Mexico and Michoacan.

For the second consecutive year, through the Mano Amiga Chalco S.C. (Helping Hand), we delivered scholarships to more than 90 children, enabling an entire class to continue its studies.

Starbucks Coffee reaffirmed its strong social responsibility culture, continuing with the following efforts:

- It helped to rehabilitate 14 children with cancer, of the Institution Luz de Vida A.C.
- It planted more than 25,000 trees.
- It collected more than 31,000 toys from Alsea's collaborators and clients throughout Mexico, to be donated to Ministerios de Amor I.A.P. (orphanages).

Domino's Pizza continued with its Por las Calles (On the Streets) Program, through the Fundacion Quiera A.C. (The Wish Foundation), to aid 25 children who live on the streets, so that once they have been rehabilitated, they can join the Domino's Pizza family.

Burger King helped rehabilitate 26 families in the Centro de Rehabilitacion Infantil de Occidente (Children's Rehabilitation Center) in Guadalajara and helped 380 children with speech and psychological problems, for the Centro de Integracion Tapalpa A.C. (Tapalpa Integration Center).

We reaffirm our commitment with Mexico and will act in the areas of health, education, human development and natural disasters, with the participation of our founding partners, shareholders, sub-franchisees, suppliers, associates and customers.

Management

Commited to our customers

Federico Tejado
Managing Director,
Domino's Pizza

Gerardo Rojas
Managing Director,
Starbucks Coffee

Fabián Gosselin
Managing Director,
Burger King

Pablo de los Heros
Managing Director,
Burger King
Latin America

Martín Santos
Managing Director,
Popeyes Chicken &
Seafood

Ernesto Chacón
Managing Director,
Chili's Grill & Bar

Commited to our brands

Cosme Torrado
Chairman of
the Board
of Directors

Alberto Torrado
Chief Executive
Officer

José Rivera Río
Chief Financial
Officer

Armando Torrado
Corporate Director,
Development

Juan Carlos Jallath
Corporate Director,
Human Resources
and Strategic
Planning

Mario Sánchez
Corporate Director,
Internal Audit

Héctor Orrico
Managing Director,
DIA

Board of Directors

President

Cosme Alberto Torrado Martínez / Chairman of the Board of Alsea

Shareholder Board and Staff Members

Alberto Torrado Martínez / Chief Executive Officer of Alsea
Armando Torrado Martínez / Development Director
Fabián Gerardo Gosselin Castro / Burger King Director
Federico Tejado Bárcena / Domino´s Pizza Director

Shareholder Board Members

Alberto Torrado Monge † / Honorary Chairman of the Board of Alsea

Independent Board Members

José Manuel Canal Hernando / Independent consultant
Marcelo Rivero Garza / Grupo Jumex, Chief Executive Officer
Salvador Cerón Aguilar / STF Consulting Group, Chairman
Sergio Mario Larraguivel Cuervo / CANIRAC, Chairman

Secretaries

Guillermo Díaz de Rivera Álvarez / Gutiérrez, Díaz de Rivera y Mangino, S.C., Partner
Xavier Mangino Dueñas / Gutiérrez, Díaz de Rivera y Mangino, S.C., Partner

Audit Committee

José Manuel Canal Hernando / Chairman
Marcelo Rivero Garza / Member
Sergio Mario Larraguivel Cuervo / Member
Mario Sánchez Martínez / Secretary

Corporate Governance Committee

Salvador Cerón Aguilar / Chairman
Alberto Torrado Monge † / Member
Sergio Mario Larraguivel Cuervo / Member
José Rivera Río Rocha / Secretary

† All of Alsea's employees will continue to follow the example and unconditional dedication of our founder, Alberto Torrado Monge, who passed away on October 25, 2006. May he rest in peace.

Management Discussion & Analysis

Sales

Net sales increased 29.2% to $5,808.1 million pesos in 2006, compared with $4,496.2 million pesos in the last year. This increase was attributable to revenue growth in all of our brands, as well as the inclusion of Burger King Argentina and Chile.

The sales growth of the different brands, was due to two important factors: i) the addition of 75 corporate stores and the acquisition of an additional 55 stores including the Burger King Latin America operations; and ii) the 6.0% increase in same store sales due to the price strategy implemented in relation to the application of the 0% VAT rate to food sales. The openings and acquisitions previously mentioned provoked a change in the sales mix due to the fact that the brands with higher revenues per unit, were the ones that contributed more to the store count growth.

EBITDA

This year we achieved an increase of 42.2% to $971.0 million pesos, compared to $682.8 million pesos in 2005. This increase was the result of higher revenues and the decrease of 360bps in the cost of sales.

These variances were partially offset by the 34.9% increase in operating expenses (excluding depreciation and amortization) equal to $737.0 million pesos. The EBITDA margin growth from 15.2% to 16.7% was due to the increase in gross profit margin which was partially offset by the increase from 46.9% to 48.9% in operating expenses (excluding depreciation and amortization).

Operating Income

The operating income of 2006 declined $51.5 million pesos, due to the $339.8 million pesos increase in depreciation and amortization. Out of this figure $244.1 million pesos, equivalent to 72% of the increase, corresponded mainly to the change in the useful lives of the leasehold improvements of all of the Company brands. Before such change, the physical life of such assets was being considered, as opposed to the commercial life. This is due to a new business strategy that the Company has decided to implement as a part of its 2007-211 Strategic Plan. Although the Company is aware that this single entry will impact its financial results, there will be no important effect in the future. Likewise, and to a lesser degree, depreciation and amortization also grew because of the fixed assets that were purchased with respect to the expansion plan and the acquisitions that were carried out. Such variations were partially offset by the $288.2 million pesos increase in EBITDA.

Net Income

Consolidated net income decreased $54.5 million pesos, mostly due to: i) the aforementioned $51.5 million pesos decrease in operating income; ii) the $16.2 million pesos increase in the comprehensive financing result; and iii) the $3.8 million pesos negative variation in other expenses. These variations were partially offset by: i) the $13.0 million pesos decrease in the loss from discontinued operations. ; ii) the $3.3 million pesos decrease in the income tax and employee's statutory profit sharing reserve; and iii) the $0.6 million pesos increase in equity interest in associated companies.

Results per Segment

The following table sets forth the sales and EBITDA per segment, in million of Mexican pesos for the full year of 2005 and 2006.

Net Sales per Segment	2006	%	2005	%	Change %
Food & Beverages	$ 4,575	78.7%	$ 3,595	79.9%	27.3%
Food & Beverages Latin America	334	5.8%	N.A.	N.A.	N.A.
Distribution	2,245	38.7%	2,033	45.2%	10.4%
Other Businesses (1)	1,336	23.0%	1,013	22.5%	31.8%
Intercompany Operations (2)	(2,682)	(46.2)%	(2,144)	(47.6)%	(25.0)%
Consolidated Net Sales	**$ 5,808**	**100%**	**$ 4,496**	**100%**	**29.2%**

EBITDA per Segment	2006	%	2005	%	Change %
Food & Beverages	$ 705	72.6%	$ 454	66.5%	55.3%
Food & Beverages Latin America	38	3.9%	N.A.	N.A.	N.A.
Distribution	195	20.1%	166	24.3%	17.5%
Other Businesses (1)	33	3.4%	63	9.2%	(47.6%)
Consolidated EBITDA	**$ 971**	**100%**	**$ 683**	**100%**	**42.2%**

(1) Other Businesses includes the real state and service companies, as well as the operations of the holding company.

(2) For segment reporting purposes, intersegment operations are included in each of the segment operations.

Sales per Brand

Sales per brand	2006	%	2005	%	Change %
Domino´s Pizza	$ 2,699	55.0%	$ 2,390	66.5%	12.9%
Starbucks Coffee	655	13.3%	382	10.6%	71.5%
Burger King Mexico	939	19.1%	718	20.0%	30.8%
Burger King Latin America	334	6.8%	N.A	N.A	N.A
Popeyes	42	0.9%	29	0.8%	44.8%
Chili's	240	4.9%	76	2.1%	215.8%
Total	**$ 4,909**	**100%**	**$ 3,595**	**100%**	**36.6%**

Food & Beverages

During 2006, sales increased 27.3% to $4,575 million pesos, compared with $3,595 million pesos in 2005. This increase of $980 million pesos is attributable to the opening of stores and to the increase in same store sales.

EBITDA increased 55.3% during 2006 to reach $705 million pesos compared with $454 million pesos of last year. This EBITDA increase reflects higher revenues and the decrease in the cost of sales due to the price strategy implemented in relation to the application of 0% VAT rate to food sales, better prices in some raw materials, the revenue mix and having achieved a series of operating efficiencies. These variances were partially offset by the increase in operating expenses, due to the growth in the number of stores, the increase in personnel expenses, the expenses related to the 0% VAT rate effect and to the increase in the prices above inflation in energy and gas.

Food & Beverages Latin America

The Food & Beverages Latin America division had a result during May to December, 2006 of $334 million pesos in revenues and an EBITDA of $38 million pesos which represents an EBITDA margin of 11.4%.

Distribution

Sales increased 10.4% to $2,245 million pesos versus $2,033 million pesos in the last year. This increase of $212 million pesos is attributable to the higher number of stores served and the increase in same store sales of the different brands of our portfolio. Third parties revenues increased from $888 million pesos in 2005 to $890 million pesos in 2006, growth that was affected by the acquisition of 46 stores during 2005 and in a lesser degree by the 6 stores acquired in December, 2006.

EBITDA reached $195 million pesos versus $166 million pesos in 2005. This increase of $29 million pesos is attributable to the increase in revenues, the decrease in cost of sales as a percentage of sales due to the improvement in the price of some goods partially offset by the sales mix that had a higher growth in sales of goods with lower margins like furniture and store equipment. The operating expenses as a percentage of sales decreased due to the marginality obtained with the sales increase.

Non-operative Results

Comprehensive Financing Result

The $47.9 million pesos comprehensive financing result increased $16.2 million pesos compared with 2005, due to a $8.8 million pesos increase in interest expenses net, a $1.9 million pesos negative variation in the foreign exchange loss and the $5.5 million pesos decrease in the result on monetary position.

Income Tax & Employees' Statutory Profit Sharing

Income Taxes went up $4.7 million pesos compared to the previous year. The actual Income Tax rate was 34% in 2006 and 28% in 2005.

The Employees' Profit Sharing reserve of $2.8 million pesos during the twelve months ended on December 31, 2006 had a decrease of $8.0 million pesos compared to the $10.8 million pesos in the same period of last year.

Discontinued Operations

The item of Discontinued Operations had a positive variance of $13.1 million pesos, ammounting $8.9 million pesos as of the end of 2006 versus $22.0 million pesos in 2005.

Minority Interest

The minority interest reached $6.2 million pesos in 2006 compared to $3.7 million pesos in 2005. This variance mostly reflects the effect of the increase in net income of Starbucks Coffee Mexico, partially offset by the acquisition of the remaining 40% of Grupo Aldi carried out in May of 2006.

Balance Sheet

Equipment, Leasehold Improvements and Property, net

The $354.6 million pesos variation is the result of an increase in store equipment, leasehold improvements, computer, transportation and production equipment due to the expansion plan and the acquisitions performed along the year.

During 2006 Alsea invested in capital expenditures a total of $1,133.1 million pesos. Out of this figure $344.4 million pesos were invested in acquisitions and $788.7 million pesos were invested in store openings, the renovation of equipment and store image renewal of some of our brands, as well as improvements to the distribution centers and to a lower extent in real state.

Suppliers

The $94.3 million pesos increase in suppliers was due to the growth in the Company operations, and the increase of 3 days in suppliers reaching 42 days as of the end of 2006, compared with 39 days at the end of last year.

Accounts Payable and Accrued Liabilities and Accruals

The $82.9 million pesos increase in accounts payable, was mainly due to the expenses related to the 0% VAT rate effect to food sales, and the provision of the expenses related with the stock option plan granted to some executives of the Company.

Debt

As of December 31, 2006 long-term debt of the Company was $346.4 million pesos, and short-term debt was $132.9 million pesos, compared with $447.0 and $322.3 million pesos, respectively, as of December 31, 2005. At the end of 2006, 95% of the debt was denominated in Mexican Pesos and the remaining 5% in Chilean Pesos. The net debt of the company decreased $360.5 million pesos to reach $243.8 million pesos in 2006 as compared to $604.3 million pesos at the end of 2005.

Stock Repurchase Program

As of December 31, 2006, the Company had a balance of 17,431 shares for an approximately $1.0 million pesos in nominal terms. During 2006, the company sold a net of 253,000 shares, for approximately $11.0 million pesos.

Financial Ratios

The current asset-to-liability ratio was 1.0 times, and the quick ratio was 0.8 times. The Company increased its accounts receivable in 1 day to reach 9 days; inventory turnover decrease to 9 times; and the suppliers account increased in 3 days to end the year in 42 days.

As a consequence of the decrease in the operative income due to the change in the useful life of certain assets, previously mentioned, the Economic Value Added (“EVA”) decreased 90.4% to $14.7 million pesos as of the end of 2006, compared with $151.8 million pesos obtained in the last year. Due to the same reason Return Over Invested Capital (“ROIC”) decreased from 23.2%, to 15.8% in 2006.

Excluding the previously mentioned change in the useful life of certain assets, the EVA generation was $239.9 million pesos in 2006, and the ROIC was 23.8%. Also excluding such effect, Earnings per share was $3.0 pesos per share representing a 50% increase.

Outstanding Figures

Brand	Stores 2006	Stores 2005	Variation	% Growth
Domino's Pizza Mexico	**402**	387	15	3.9%
Starbucks Coffee Mexico	**117**	76	41	53.9%
Burger King Mexico	**94**	78	16	20.5%
Burger King Argentina	**27**	N.A.	27	N.A.
Burger King Chile	**23**	N.A.	23	N.A.
Popeyes Chicken & Seafood	**9**	5	4	80.0%
Chili's Grill & Bar	**17**	11	6	54.5%
Spoleto	**N.A.**	2	(2)	N.A.
Total Corporate Stores	**689**	**559**	**130**	**23.3%**
Domino's Pizza Brazil	**23**	27	(4)	(14.8%)
Starbucks Coffee Brazil	**2**	N.A.	2	N.A.
Total Associate Stores	**25**	**27**	**(2)**	**(7.4%)**
Domino's Pizza Mexico	**151**	142	9	6.3%
Total Sub-Franchisees	**151**	**142**	**9**	**6.3%**
Total Stores	**865**	**728**	**137**	**18.8%**

Financial Ratios	2006	2005	Variation
EBITDA / Interest Paid	**16.8 *x***	14.8 *x*	N.A.
Net Debt / EBITDA	**0.25 *x***	0.9 *x*	N.A.
Total Liabilities / Stockholders´ Equity	**0.49 *x***	0 .75 *x*	N.A.
ROIC (1)	**15.8%**	23.3%	(750 bps)
EVA (2) (million pesos)	**$ 14.6**	$ 151.8	(90.4%)

Stock Ratios	2006	2005	Variation
Book Value per Share	**$ 16.42**	$ 12.9	32.4%
EPS (ttm)	**$ 1.45**	$ 2.0	(27.5%)
EV (3) / EBITDA (ttm)	**9.8 *x***	6.8 *x*	N.A.
Shares Outstanding (million)	**155.8**	136.6	14.1%
Float	**36%**	28%	800 bps
Stock Price	**$ 58.89**	$ 27.74	112.3%

(1) ROIC is defined as operating income divided by invested capital (total assets -cash - non interest bearing liabilities).
(2) EVA is defined as the operating income - net invested capital times the cost of capital (considers a 17% cost of equity)
(3) EV is defined as market value, plus net debt, plus minority interest.

Audit Committee Report

February 26, 2007

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

In compliance with Articles 42 and 43 of the new Stock Market Law and with the Audit Committee Regulations, I hereby submit to you the report on the activities we carried out during the year ended December 31, 2006. In the development of our work, we have kept in mind the recommendations contained in the Best Corporate Practices Code. The Company's Statutory Examiner was invited to and attended our work sessions. We met at least quarterly and based on a work program, we carried out the following activities:

Internal Control

We assured that Management, in compliance with its Internal Control responsibilities, had established the overall guidelines and processes necessary for their application and compliance. We also followed up on the comments and observations expressed by the External and Internal Auditors in the course of their work.

External Audit

We recommended that the Board of Directors contract the External Auditors of the Group and its subsidiaries. To this end, we obtained assurance as to their independence and compliance with the personnel rotation requirements established in the Law. We analyzed their focus and work program with them, as well as their coordination with the Internal Audit area.

We kept in constant and direct contact, to stay abreast of the progress of their work and their observations, and to take note of their comments on their review of the quarterly and annual financial statements. We received their conclusions and reports on the annual financial statements in good time.

We authorized the fees paid to the External Auditors for audit services and other permitted services, assuring that they did not interfere with their independence from the Company.

Taking Management's viewpoints into account, we evaluated their services corresponding to the prior year.

Internal Audit

To maintain their independence and objectivity, the Internal Audit area reports to the Audit Committee. Consequently:

- We reviewed and approved their program and annual budget of activities, in due time.
- We received periodic reports on the state of completion of the approved work program, the variances that could have arisen, and the causes that originated such variances.
- We followed up on the observations and recommendations they developed, and on their timely implementation.

Financial Information, Accounting Policies and Reports to Third Parties

With the persons responsible for their preparation, we reviewed the Company's quarterly and annual financial statements and recommended that the Board of Directors approve such statements and authorize their publication. As part of this process, we took the opinion and observations of the External Auditors into account.

When issuing our opinion on the financial statements, we assured that the criteria, accounting policies and the information utilized by Management to prepare the financial information were adequate and sufficient and that they had been applied in a manner consistent with the prior year. Consequently, the information presented by Management reflects fairly, the Company's financial position, its results of operations and the changes in its financial position for the year ended December 31, 2006.

Our review also included the quarterly reports prepared by Management, to be presented to the shareholders and to the public at large, as well as any other financial information required by current regulations. We verified that the reports were prepared utilizing the same accounting criteria as those used to prepare the annual information. In conclusion, we recommended that the Board of Directors authorize their publication.

Compliance with Standards, Legal Aspects and Contingencies

We confirmed the existence and reliability of the controls established by the Company, to assure compliance with the different legal provisions to which it is subject, assuring that such controls were duly disclosed in the financial information.

We periodically reviewed the Company's different tax, legal and labor contingencies and considered the efficiency of the procedure established for their identification and follow-up, as well as their correct disclosure and recording.

Code of Conduct

With the support of Internal Audit, we assured personnel's compliance with the Group's Code of Conduct, as well as the application of the corresponding sanctions in the cases of violations detected.

Related Party Transactions

We reviewed that the transactions with related parties were the result of transactions required by the business, at market values and that they had been clearly expressed in the financial statements. For this purpose, we sought the support of the Internal Audit and of the transfer pricing review carried out by the External Auditors.

Administrative Aspects

We held regular meetings of the Committee with Management, to stay abreast of the Company's activities and relevant and unusual events.

We also met with the External and Internal Auditors, without the presence of Management, to discuss the development of their work, any limitations they might have had, and to facilitate any private communication they might want to have with the Committee.

When we considered it advisable, we requested the support and opinion of independent experts. We also were not aware of any possible significant non-compliances with operating policies, the internal control system and accounting record policies.

We held executive meetings with the exclusive participation of the Committee members, establishing agreements and recommendations for Management.

The President of the Audit Committee delivered quarterly reports on the activities developed, to the Board of Directors.

The work we carried out was duly documented in the minutes prepared at each meeting, which were reviewed and timely approved by the Committee members.

Very truly yours,

Audit Committee
José Manuel Canal Hernando / Chairman

Corporate Practices Committee’s Report

February 20, 2007

To the Board of Directors of ALSEA, S.A.B. DE C.V.:

In compliance with Articles 42 and 43 of the new Securities Market Act, and on behalf of the Corporate Governance Committee, I hereby submit to you, the report on the activities we carried out during the year ended December 31, 2006. In the development of our work, we have kept in mind, the recommendations contained in the Best Corporate Practices Code. We met quarterly, to assure compliance with our responsibilities.

To comply with the responsibilities of this Committee, we carried out the following activities:

1. We carried out a detailed review of the evaluation of the performance of the Chief Executive Officer and of his executive team, recommending the authorization of the performance bonus, with no observations.

2. We received the proposal for the overall remunerations for the Chief Executive Officer and for the executive directors, included for this 2006, a variable bonus with deferred payments referenced on the behavior of the price of Alsea's share during this same period and subject to the performance evaluation. Such consideration replaced the so-called Stock Option Plan for employees, whose functioning rules had been approved at the time by the Board of Directors and by the Company's General Shareholders´ Meeting in compliance with the current legal provisions and circulars.

3. During this period, at no time did we receive any request whatsoever for exemption in accordance with the terms of article 28, section III, clause f) of the new Stock Market Law; consequently, it was not necessary to make any recommendation whatsoever in this sense, to the Board of Directors.

4. We reviewed two proposals from Senior Management, for a new, high-level organizational structure. We recommended certain adjustments to the proposals, which were submitted to the Board of Directors for their authorization.

5. Transactions with related parties during the year under review were analyzed by the Audit Committee and submitted to the Board of Directors.

In closing, I would like to mention that as part of the activities we carried out, including the preparation of this report, we have at all times listened to and considered the viewpoint of the relevant directors, there being no difference of opinion to mention.

Corporate Governance Committee
Salvador Cerón Aguilar / President

Consolidated Financial Statements

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

December 31, 2006 and 2005
(With Independent Auditors' Report)
(Translation from Spanish Language Original)

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Independent Auditors' Report

(Translation from Spanish Language original)

February 20, 2007

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

(Thousands of Mexican pesos)

We have audited the accompanying consolidated balance sheets of Alsea, S.A.B. de C.V. and Subsidiaries as of December 31, 2006 and 2005 and the related consolidated statements of income, stockholders' equity and changes in financial position for the years 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 audits.

We conducted our audits in accordance with generally accepted auditing standards 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 Mexican Financial Reporting Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the financial reporting standards used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As mentioned in note 7 to the consolidated financial statements, in accordance with management's new market strategy, which involves image renewal of the trademarks that Alsea operates, during 2006, the useful life of the assets mentioned in said note was adapted to the current conditions of business operations. The effect of this change generated an operating expense of $244,085 and an increase of $56,692 to the deferred income tax benefit.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alsea, S. A. B de C. V. and Subsidiaries as of December 31, 2006 and 2005, and the results of their operations, the changes in their stockholders' equity and the changes in their financial position for the years then ended in conformity with Mexican Financial Reporting Standards.

KPMG CARDENAS DOSAL, S. C.

Javier Morales Ríos

Consolidated Balance Sheets

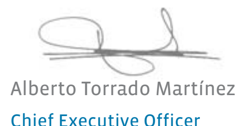
ALSEA, S.A.B. de C.V. and Subsidiaries
December 31, 2006 and 2005
(Thousands of Mexican pesos of constant purchasing power as of December 31, 2006)

		2006	2005
Asset			
Current assets			
Cash	$	**235,447**	165,055
Accounts receivable:			
Clients less allowance for doubtful accounts of $6,539 in 2006 y $4,514 in 2005		**164,558**	116,722
Recoverable taxes		**190,002**	222,513
Other		**43,870**	72,596
Associated companies (note 4)		**619**	15,670
Inventories, net (note 5)		**218,216**	140,095
Prepaid expenses		**60,528**	79,508
Total current assets		**913,240**	812,159
Investment in shares of associated companies (note 6)		**9,243**	3,898
Equipment, leasehold improvements and property, net (note 7)		**2,163,775**	1,809,133
Goodwill of subsidiary companies, net (note 8)		**209,740**	209,740
Intangible assets, less accumulated amortization of $342,064 in 2006 and $185,341 in 2005 (note 9)		**508,573**	388,538
Deferred income tax, employees' statutory profit sharing and long-term taxes on retained earnings (note 15)		**85,843**	–
Intangible assets for labor obligations (note 14)		**6,003**	8,398
Other assets, net		–	7,179
Discontinued operations		**6,084**	4,869
	$	**3,902,501**	3,243,914

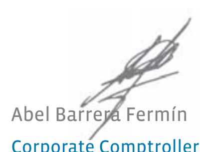
See accompanying notes to consolidated financial statements.

		2006	2005
Liabilities and Stockholders' Equity			
Short-term liabilities			
Current installments of long-term debt (note 10)	$	**132,900**	322,343
Suppliers		**413,597**	319,336
Associated companies (note 4)		**18,322**	4,267
Accounts payable and accrued liabilities		**49,871**	68,670
Accruals (note 11)		**197,352**	95,690
Taxes payable and employees' statutory profit sharing		**84,666**	72,850
Discontinued operations		–	5,068
Total short-term liabilities		**896,708**	888,224
Long-term debt, excluding current installments (note 10)		**346,431**	447,012
Other liabilities		**17,055**	762
Labor obligations (note 14)		**18,005**	14,094
Deferred income tax, employees' statutory profit sharing and long-term taxes payable on retained earnings (note 15)		–	44,205
Total liabilities		**1,278,199**	1,394,297
Stockholders' equity (note 16):			
Majority stockholders' equity			
Capital stock		**517,258**	477,459
Additional paid-in capital		**1,050,985**	366,706
Retained earnings		**873,349**	820,845
Reserve for repurchase of shares		**114,453**	102,109
Cumulative translation effect from foreign entities		**2,042**	379
Majority stockholders' equity		**2,558,087**	1,767,498
Minority interest		**66,215**	82,119
Total stockholder's equity		**2,624,302**	1,849,617
Commitments and contingencies (note 17)			
	$	**3,902,501**	3,243,914

José Rivera Río Rocha
Chief Financial Officer



Alberto Torrado Martínez
Chief Executive Officer



Abel Barrera Fermín
Corporate Comptroller

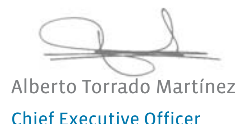
Consolidated Statements of Income

ALSEA, S.A.B. de C.V. and Subsidiaries
Years ended December 31, 2006 and 2005
(Thousands of Mexican pesos of constant purchasing power as of December 31, 2006)

		2006	2005
Net sales	$	**5,808,116**	4,496,196
Cost of sales		**1,991,648**	1,704,960
Gross profit		**3,816,468**	2,791,236
Operating expenses		**3,396,185**	2,319,415
Operating income		**420,283**	471,821
Comprehensive financing result (note 12)		**(47,920)**	(31,681)
Other expenses, net (note 13)		**(20,830)**	(17,065)
Income from continuing operations, before income taxes and employees' statutory profit sharing		**351,533**	423,075
Income tax and employees' statutory profit sharing (note 15):			
Income tax		**120,920**	116,211
Employees' statutory profit sharing		**2,772**	10,822
Total income tax and employees' statutory profit sharing		**123,692**	127,033
Income from continuing operations, before equity interest in associated companies		**227,841**	296,042
Equity interest in associated companies (note 6)		**1,399**	798
Income from continuing operations		**229,240**	296,840
Loss from discontinued operations, net of taxes		**(8,892)**	(21,956)
Income before minority interest		**220,348**	274,884
Minority interest		**6,218**	3,702
Net income	$	**214,130**	271,182
Net earnings per share (note 2(w))	$	**1.45**	2.04

See accompanying notes to consolidated financial statements.

José Rivera Río Rocha
Chief Financial Officer


Alberto Torrado Martínez
Chief Executive Officer

Abel Barrera Fermín
Corporate Comptroller

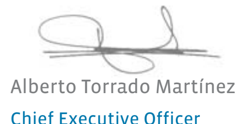
Consolidated Statements of Changes in Financial Position

ALSEA, S.A.B. de C.V. and Subsidiaries
Years ended December 31, 2006 and 2005
(Thousands of Mexican pesos of constant purchasing power as of December 31, 2006)

		2006	2005
Operating activities:			
Income before minority interest	$	**220,348**	274,884
Add charges (deduct credits) to income not requiring (providing) funds:			
Depreciation and amortization of trademarks		**550,707**	210,930
Write-off of investment and cancellation of goodwill of subsidiary companies, net		–	11,543
Equity interest in associated companies		**(1,399)**	(798)
Deferred income tax and employees' statutory profit sharing		**(130,048)**	(59,837)
Funds provided by operations		**639,608**	436,722
Net financing from (investing in) operating accounts:			
Clients, net and prepaid expenses		**90,097**	(65,306)
Inventories		**(59,622)**	56,064
Associated companies		**25,932**	(15,504)
Suppliers, accounts payable, accrued liabilities and other accounts payable		**105,020**	81,314
Taxes payable and employees' statutory profit sharing		**112,785**	(156,214)
Funds provided by (used in) operating activities		**274,212**	(99,646)
Financing activities:			
Increase in capital stock and minority interest, net		**701,427**	20,963
Repurchase of shares		**12,873**	5,581
(Payment) increase of loans, net		**(320,044)**	627,360
Dividends declared		**(161,626)**	(104,130)
Funds provided by financing activities		**232,630**	549,774
Investing activities:			
Acquisition of equipment, leasehold improvements and property		**(355,048)**	(444,833)
Discontinued operations, net		–	17,236
Acquisition of subsidiary and associated companies		**(369,887)**	(144,513)
Translation effect from foreign entity		**1,663**	–
Intangible and other assets		**(352,786)**	(162,009)
Goodwill, net		–	(140,831)
Funds used in investing activities		**(1,076,058)**	(874,950)
Increase in cash		**70,392**	11,900
Cash:			
At beginning of year		**165,055**	153,155
At end of year	$	**235,447**	165,055

See accompanying notes to consolidated financial statements.

José Rivera Río Rocha
Chief Financial Officer


Alberto Torrado Martínez
Chief Executive Officer

Abel Barrera Fermín
Corporate Comptroller

Consolidated Statements of Changes in Stockholders' Equity

ALSEA, S.A.B. de C.V. and Subsidiaries
Years ended December 31, 2006 and 2005
(Thousands of Mexican pesos of constant purchasing power as of December 31, 2006)

		Capital stock	Additional paid-in capital	Statutory reserve
Balances as of December 31, 2004	$	451,201	280,883	23,123
Decrease in minority interest		–	–	–
Increase in equity (note 16)		25,936	85,823	–
Repurchase of shares (note 16)		322	–	–
Appropriation to statutory reserve		–	–	7,921
Dividends declared ($0.76 per share) (note 16)		–	–	–
Comprehensive income		–	–	–
Balances as of December 31, 2005		477,459	366,706	31,044
Decrease in minority interest		–	–	–
Increase in equity (note 16)		39,270	684,279	–
Repurchase of shares (note 16)		529	–	–
Appropriation to statutory reserve		–	–	12,883
Dividends declared ($1.19 per share) (note 16)		–	–	–
Comprehensive income		–	–	–
Balances as of December 31, 2006	$	517,258	1,050,985	43,927

See accompanying notes to consolidated financial statements.

Retained earnings						
Retained earnings	Total	Reserve for repurchase of shares	Cumulative translation effect from foreign entities	Total majority stockholders' equity	Minority interest	Total stockholder's equity
630,670	653,793	96,850	379	1,483,106	169,213	1,652,319
–	–	–	–	–	(90,796)	(90,796)
–	–	–	–	111,759	–	111,759
–	–	5,259	–	5,581	–	5,581
(7,921)	–	–	–	–	–	–
(104,130)	(104,130)	–	–	(104,130)	–	(104,130)
271,182	271,182	–	–	271,182	3,702	274,884
789,801	820,845	102,109	379	1,767,498	82,119	1,849,617
–	–	–	–	–	(22,122)	(22,122)
–	–	–	–	723,549	–	723,549
–	–	12,344	–	12,873	–	12,873
(12,883)	–	–	–	–	–	–
(161,626)	(161,626)	–	–	(161,626)	–	(161,626)
214,130	214,130	–	1,663	215,793	6,218	222,011
829,422	873,349	114,453	2,042	2,558,087	66,215	2,624,302

José Rivera Río Rocha
Chief Financial Officer

Alberto Torrado Martínez
Chief Executive Officer

Abel Barrera Fermín
Corporate Comptroller

Notes to the Consolidated Financial Statements

ALSEA, S.A.B. de C.V. and Subsidiaries
December 31, 2006 and 2005
(Thousands of constant Mexican pesos as of December 31, 2006)
(Translation from Spanish Language Original)

These financial statements have been translated from Spanish Language original, only for convenience of foreign English speaking readers.

On February 20, 2007, the Board of Directors authorized issuance of the accompanying consolidated financial statements and notes thereto.

1. Description of business and significant transactions-

Alsea, S.A.B. de C.V. and Subsidiaries ("Alsea" or the "Company") are mainly engaged in operating fast-food stores and restaurants. In Mexico, Alsea operates Domino's Pizza, Starbucks Coffee, Burger King, Popeyes Chicken & Seafood and Chili's Grill & Bar. The operation of its multi-units is supported by its distribution division (DIA). As from 2006, the Company operates Starbucks Coffee in Brazil in association with Café Sereia do Brasil Participações, S.A. and Starbucks Corporation Inc.; as well as Burger King in Chile and Argentina.

Significant transactions-

a) Primary public offering

In April 2006, Alsea increased its capital stock, issuing 16,257,200 Class II common shares. The net resources provided by this primary public offering increased the stockholders' equity, as indicated in note 16.

b) Acquisitions

Continuing with the market growth of fast-food and restaurants, Alsea mainly carried out the following acquisitions during 2006 and 2005:

- In May 2006, Alsea reached a 100% interest in the equity of Gastrosur S.A de C.V (Gastrosur) (formerly Grupo Alimentos y Diversión, S.A de C.V.) by acquiring 40% of the minority interest shares. Gastrosur has exclusive rights to the use of Chili's Grill & Bar trademark in some Mexican states. In August 2005, Alsea had acquired 60% of Gastrosur equity (see note 16).

- In April 2006, Alsea acquired 100% of the shares representing the capital stock of Restaurants Sudamericana, L.C. the holding entity of Fast Food Sudamericana, S.A de C.V. (Burger King Argentina), Fast Food Chile S.A (Burger King Chile) and RS Management, Inc. (see note 9).

- In August 2005, Alsea reached a 100% interest in the equity of SC de Mexico, S. A. de C. V. (SC de Mexico) by acquiring 21.95% of the minority interest shares. SC de Mexico holds 82% of the outstanding shares of Café Sirena, S. de R.L. de C.V., a subsidiary that operates the Starbucks Coffee stores in Mexico (see note 16).

- In July 2005, Alsea acquired 100% of the shares representing the capital stock of Operadora de Franquicias Alsea, S. A. de C. V. (formerly Operadora Dopitam), a subfranchisee of Domino's Pizza in the Mexican State of Tamaulipas.

- In May and April 2005, Alsea acquired Alipronto, S. A. de C. V. and Geboy del Norte, S.A. de C.V., franchisees of Burger King Corporation; these entities were merged with West Alimentos, S. A. de C. V. in the same year (see note 8).

Below is a condensed balance sheet of the business acquired for the years ended December 2006 and 2005:

		2006	2005
Condensed balance sheet			
Current assets	$	**87,678**	69,487
Store equipment, leasehold improvements and property		**175,847**	142,882
Franchisee rights		**64,298**	–
Deferred income tax		**19,351**	–
Other assets		–	38,342
	$	**347,174**	250,711
Short-term liabilities	$	**68,069**	74,127
Long-term liabilities		**40,420**	31,952
Majority stockholders' equity		**238,685**	120,779
Minority stockholders' equity		–	23,853
	$	**347,174**	250,711
Goodwill	$	–	140,831

The business acquisitions were accounted for the purchase method. The acquisition cost was determined based on cash payment and there was no contingent consideration at the date of each acquisition. Furthermore, the excess of cost over net assets and liabilities acquired was reassigned to the fair value of the net assets.

The operating income of the acquired companies is included in the consolidated financial statements as of the date of acquisition.

c) Joint venture involving the development of Starbucks Coffee in Brazil

In May 2006, Alsea entered into a joint venture agreement to develop the Starbucks Coffee trademark in Brazil with Cafés Sereia do Brasil Participações, S. A. and Starbucks Corporation Inc., by incorporating Starbucks Brasil Comércio de Cafés, Ltda. (Joint Venture Company), beginning operations in November 2006.

d) Merger

In March 2005, the merger of Operadora West, S.A. de C.V. (Operadora West), into Alsea, S.A. de C.V. was concluded. Operadora West was Burger King Corporation's franchisee and most of its shares were acquired by Alsea in 2004; therefore, Operadora West was the merged entity leaving Alsea, S.A. de C.V. as the surviving entity. For these purposes, the Company obtained authorization from Burger King Corporation and confirmation from the Ministry of Finance (see note 16).

2. Summary of significant accounting policies-

(a) Financial statement presentation and disclosure-

The accompanying consolidated financial statements have been prepared in conformity with Mexican Financial Reporting Standards (FRS), which require recognition of the effects of inflation on the financial information, and are stated in thousands of Mexican pesos of constant purchasing power as of December 2006, based on the Mexican National Consumer Price Index (NCPI) Published by Banco de Mexico.

On May 31, 2004, the Mexican Institute of Public Accountants, A.C. formally transferred the responsibility for issuance of accounting standards in Mexico to the Mexican Board for Research and Development of Financial Reporting Standards (CINIF), an independent entity in terms of its equity and operations. Therefore, the bulletins of generally accepted accounting principles in Mexico (Mexican GAAP) issued by the Mexican Institute of Public Accountants, A.C., were transferred to the CINIF, which renamed and integrated them to the FRS structure, provided they are not modified, superseded or repeal by new standards issued by the CINIF.

(b) Principles of consolidation-

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 over which it has control. All significant intercompany balances and transactions have been eliminated in consolidation.

The principal operating subsidiaries are as follows:

	Ownership		
	2006	2005	Activity
Operating:			
Café Sirena, S. de R. L. de C. V.	**82.00%**	82.00%	Starbucks Coffee stores
Operadora de Franquicias Alsea, S.A. de C.V. (formerly Operadora Dopitam)	**99.99%**	99.99%	Domino's Pizza Burger King and Popeyes Chicken & Seafood stores
Gastrosur, S. A. de C. V. (formerly Grupo Alimentos y Diversión, S. A. de C. V.)	**99.99%**	60.00%	Chili's Restaurants
Restaurants Sudamericana, L.C.	**99.99%**	–	Burger King stores in South America
Distribuidor Internacional de Alimentos, S.A. de C.V.	**99.99%**	99.99%	Food distribution
Associated:			
Cool Cargo, S.A. de C.V.	**50.00%**	50.00%	Transportation services
Starbucks Brasil Comércio de Cafés, Ltda.	**11.06%**	–	Starbucks Coffee stores in Brazil
De Libra, Ltda.	**50.00%**	50.00%	Domino's Pizza stores in Brazil

The investment in shares of associated companies is valued by the equity method (see note 6).

(c) Discontinued operations-

The investment in shares of De Libra, Ltda. is valued by the equity method; however, due to formal plans to withdraw this investment, as from December 2006, the equity in income of this associated company is shown as discontinued operations in the statement of income.

In October 2006, Alsea sold the shares of Rio con Pasta, S.A. de C.V., a subsidiary engaged in operating the Spoleto trademark in Mexico; this operation generated a loss of $1,247 shown as discontinued operations in the statement of income.

Due to the above, the 2005 consolidated financial statements have been reclassified for comparison purposes.

(d) Currency translations of foreign subsidiaries-

Consolidation of the financial statements of foreign subsidiaries operating on an independent basis (located in Argentina and Chile, representing 5% of consolidated net sales) was conducted applying the same accounting policies; and have been adjusted applying the inflation of the country in which they operate and are expressed in currency of constant purchasing power of those countries and, subsequently, translated into Mexican pesos at the exchange rate prevailing at year end (balance sheet and income statement accounts). The “Cumulative translation effect of foreign entity financial statements” shown in stockholders' equity represents the effect of translation.

(e) Presentation of prior year's amounts-

Figures of prior years' financial statements, are expressed in pesos of a constant purchasing power, using factors derived from NCPI. The factors used in 2006 and 2005 were 1.0405 and 1.0333, respectively.

(f) Cash-

Includes all checking accounts, foreign currency and other highly liquid instruments. At the date of the consolidated financial statements, interest income and expenses, and foreign exchange gains and losses are included in operating income, under comprehensive financial result.

(g) Inventories and cost of sales-

Valued at the last-in-first-out method; therefore the replacement cost of inventories has been updated to the cost of last purchase. Inventory values thus determined do not exceed market values. Cost of sales represents the replacement cost of inventories at the time of their sale and is expressed in constant pesos as of the most recent year-end.

The Company provides for the necessary allowances for inventory impairment arising from damaged, obsolete, slow-moving inventories or other causes, evidence that realization of goods will be below their cost.

(h) Equipment, leasehold improvements and property-

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

	Rates	
Buildings	5%	
Store equipment	6% to 33%	(10% until 2005)
Leasehold improvements	10% to 20%	(5% to 10% until 2005)
Transportation equipment	25%	
Computer equipment	30%	
Production equipment	10% to 20%	
Office furniture and equipment	10%	

(i) Goodwill of subsidiaries and associated companies-

Goodwill represents the excess of cost over the fair value of net assets acquired. In determining these amounts, intangible assets acquired with no recoverable value are eliminated, and the remainder is adjusted using NCPI factors. In accordance with accounting pronouncements, goodwill is no longer amortizable and must be tested for impairment.

(j) Intangible assets-

Trademarks represent payments made to third parties for the right to use trademarks under which the Company operates its stores, pursuant to franchisee or association agreements. Adjusted for inflation by applying NCPI factors to the historical cost; amortization is calculated using the straight line method at annual rates from 5% to 15%. The rights to the use of these trademarks expire as follows:

Trademark	Expiration date
Domino's Pizza	2025
Starbucks Coffee	2021
Burger King	2024
Popeyes Chicken & Seafood	2042
Chili's Grill & Bar	2015

The Company has certain obligations, under said agreements, among others, investments in capital and opening of new points of sale. The association agreement signed between Starbucks Coffee International (SCI) and Alsea allows SCI to increase its capital stock in Café Sirena, until it reaches 50%. This option can be exercised in 2007 and/or 2008 in the event of failure to meet certain goals, mainly the opening of new points of sale. As from 2009, SCI can increase its participation up to 50% irrespective of whether or not said goals were met.

Pre-operating expenses and leasehold improvements relate to the opening of new points of sale in various zones, and are reported at adjusted values using NCPI factors. Amortization over restated values is computed by the straight-line method over one year, from the date that each point of sale starts operations.

(k) Impairment of long-lived assets, equipment, leasehold improvements, property, goodwill and other intangible assets-

The Company periodically evaluates the restated values of long-lived assets, equipment, leasehold improvements, property, goodwill and other intangible assets, to determine whether there are indications of potential impairment. The recoverable value represents the present value of the cash flows associated to the generating unit, applying an appropriate discount rate, expected to be generated as a result of assets used or disposed of. If the carrying amount of an asset exceeds its estimated net revenues, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported in the balance sheets at the lower of the carrying amount or realizable value.

(l) Accruals-

The accruals recognized in the balance sheet represent present obligations, in which the use of economic resources or the rendering of services is virtually assured and arises as a consequence of past events, mainly supplies and other amounts payable to employees. These provisions have been recorded, based on management's best estimate of the amount needed to settle present obligation; however, actual results could differ from the provisions recognized (see note 11).

(m) Income tax (IT) and asset tax (AT), and employees' statutory profit sharing (ESPS)-

Provisions for IT and ESPS are charged to operations for the year as incurred. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as tax loss carryforwards and unused tax credits. Deferred tax assets and liabilities are calculated using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period in which such changes are enacted.

Deferred ESPS is recognized only for temporary differences arising from the reconciliation between book income for the year and the ESPS tax base, from 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.

(n) Labor obligations-

Compensation upon termination of employment (seniority premiums and severance) for reasons other than restructuring, to which employees are entitled in accordance with the law, are charged to operations for the year in which such services are rendered, based on actuarial computations using the projected unit credit method (see note 14).

Other compensations to which employees are entitled are charged to income in the year as incurred.

(o) 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 on which the contributions are made or generated to the most recent year end. The resulting amounts represent the constant value of stockholders' equity.

(p) Additional paid-in capital-

Represents the excess of the payments for subscribed shares over their par value, less related expenses.

(q) Cumulative deferred income tax-

Represents the effect of recognition of cumulative deferred taxes as of the date on which the accounting standard was adopted, reported in retained earnings.

(r) Revenue recognition-

The Company recognizes revenue from the sale of food when the products are delivered to the clients; service revenue is recognized when the services are rendered. The Company provides reserves for returns and discounts. These reserves are deducted from sales.

(s) Derivative financial instruments-

As from 2006, Alsea uses derivative financial instruments (forwards) to reduce the risk of adverse fluctuations in exchange rates. These derivatives are valued at fair value and require that the Company exchange cash flows at underlying value in give future dates.

Fair value changes in derivatives are temporarily recognized under comprehensive income and reclassified to operations when the hedged item are realized. The ineffective portion of the fair value of derivatives is immediately recognized in operations, reported under comprehensive financing result.

(t) Comprehensive financing result (CFR)-

The CFR includes interest income and expense, foreign exchange gains and losses, and monetary position gains and losses.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date on which such transactions are entered into or settled. Foreign currency assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Exchange differences arising from assets and liabilities denominated in foreign currencies are reported in operations for the year.

Gains or losses on monetary position 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, reported in operations for the year.

(u) Use of estimates-

The preparation of the financial statements requires that management makes estimates and assumptions affecting the amounts reported for assets and liabilities, 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.

(v) Contingencies-

Liabilities for contingent losses 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 assured.

(w) Earnings per share-

Earnings per share equal the year's net income divided by the weighted average of outstanding shares during the year.

(x) Comprehensive income-

Represents the result from the Company's overall activities during the year and is comprised of net income and the cumulative translation effect of foreign entities applied directly to stockholders' equity.

(y) New accounting pronouncements -

The CINIF has issued the following new statements: FRS B-3 "Statement of Income" superseding the bulletin B-3 that modifies the general rules for presentation of the statement of income; FRS B-13 "Subsequent Events" superseding the bulletin B-13 and paragraphs 62 to 70 of the bulletin C-9, that establishes the accounting treatment when such events should be recognized and when they should only be disclosed; FRS C-13 "Related Parties" superseding the bulletin C-13 establishes the minimum disclosure rules applicable to operations with related parties, and FRS D-6 "Capitalization of Comprehensive Financing Result", modifying the bulletins C-6 and B-10 that establishes mandatory capitalization of the comprehensive financing result directly related with fixed asset acquisitions, which was previously optional.

The issued FRS went into effect on January 1, 2007, without a provision for early application, except for FRS D-6. The Company management considers that the adoption of these FRS will have no significant effect on the Company's financial statements.

3. Foreign currency exposure-

Monetary assets and liabilities denominated in U.S. dollars (dollars) as of December 31, 2006 and 2005 were as follows:

	Thousands of dollars	
	2006	2005
Assets	**10,471**	2,790
Liabilities	**15,622**	5,431
Net liability position	**(5,151)**	(2,641)

The exchange rate of the peso to the dollar, as of December 31, 2006 and 2005, was $10.87 and $10.71, respectively. At February 20, 2007, the exchange rate was $10.97

As of December 31, 2006 and 2005, the Company's position of non-monetary assets and liabilities of foreign origin or whose replacement cost may only be determined in dollars corresponds mainly to store equipment and inventories.

Following is a summary of transactions carried out with foreign entities, for the years ended December 31, 2006 and 2005:

	Thousands of dollars	
	2006	2005
Food purchases	**61,019**	57,171
Equipment purchases	**3,005**	2,329
Royalties	**17,196**	14,786

4. Balances and transactions with associated companies-

Accounts receivable and payable to associated companies as of December 31, 2006 and 2005 as follows:

	2006	2005
Accounts receivable:		
De Libra, Ltda.	$ **619**	14,957
Cool Cargo, S. A. de C. V.	–	713
	$ **619**	15,670
Accounts payable:		
Starbucks Coffee International	$ **16,562**	4,267
Cool Cargo, S. A. de C. V.	**1,760**	–
	$ **18,322**	4,267

Freight services contracted from Cool Cargo amounted to $14,965 in 2006 and $14,135 in 2005.

5. Inventories-

Include the following:

	2006	2005
Food and beverages	$ **205,492**	131,377
Containers and packaging	**10,373**	8,257
Other	**7,333**	5,361
Less allowance for obsolete items	**(4,982)**	(4,900)
	$ **218,216**	140,095

6. Investment in shares of associated companies-

Includes direct interest in the capital stock of the companies listed below:

	Equity		Equity interest in the results of operations for the year	
	2006	2005	2006	2005
Cool Cargo, S. A. de C. V.	$ 5,854	3,898	1,398	798
Starbucks Brasil Comércio de Cafés, Ltda.	3,389	–	1	–
	$ 9,243	3,898	1,399	798
De Libra, Ltda. (see note 2(c))	$ 6,084	(4,274)	(7,645)	(21,311)

7. Equipment, leasehold improvements and property-

Include the following:

	2006	2005
Buildings	$ 153,618	117,797
Store equipment	1,114,518	791,166
Leasehold improvements	1,207,830	947,948
Transportation equipment	107,348	97,190
Computer equipment	179,247	137,585
Production equipment	146,329	133,745
Office furniture and equipment	44,633	25,026
	2,953,523	2,250,457
Less accumulated depreciation	(1,246,681)	(755,466)
	1,706,842	1,494,991
Land	71,340	65,424
Constructions in progress (*)	385,593	248,718
	$ 2,163,775	1,809,133

(*) Relates primarily to the opening of stores, restaurants and the corporate office building, which is to be completed in 2007.

In accordance with management's new market strategy, which involves image renewal of the trademarks that Alsea operates, during 2006, the useful life of leasehold improvements, store equipment and pre-operating expenses was adapted to the current conditions of business operations. The effect of this change generated an operating expense of $244,085 and an increase of $56,692 to the deferred income tax benefit.

8. Goodwill of associated and subsidiary companies-

As of December 31, 2006 and 2005, the goodwill of associated and subsidiary companies is comprised as follows:

	2006	2005
Alsea, S. A. B. de C. V. (*)	$ 120,400	120,400
West Alimentos, S. A. de C. V.	86,797	86,797
Operadora D. P. de México, S. A. de C. V.	18,908	18,908
	226,105	226,105
Less accumulated amortization	(16,365)	(16,365)
	$ 209,740	209,740

(*) Due to the mergers carried out in 2006 and 2005, the goodwill originally recorded in subsidiary companies is now recognized in Alsea.

9. Intangible assets-

Intangible assets as of December 31, 2006 and 2005 include the following:

		Trademarks	Pre-operating expenses	Franchisee rights and rights to the use of commercial facilities	Licenses and developments	Total
Balances as of December 31, 2005	$	257,012	65,195	28,191	38,140	388,538
Acquisitions		241,194	79,623	106,662	34,620	462,099
Less accumulated amortization		(190,629)	(107,520)	(12,925)	(30,990)	(342,064)
Balances as of December 31, 2006	$	307,577	37,298	121,928	41,770	508,573

Alsea increased its investment in trademarks mainly due to the acquisition of Restaurants Sudamericana, L.C. (Burger King Argentina and Chile) and to the rights to open "Starbucks Coffee" stores.

10. Long-term debt-

Unsecured long-term debt in Mexican pesos is as follows:

	Maturing in	Average annual interest rate		2006	2005
Unsecured loans	2007 – 2012	6.50% – 7.46%	$	**479,331**	769,355
Less current installments				**(132,900)**	(322,343)
Long-term debt			$	**346,431**	447,012

Maturities of long-term debt as of December 31, 2006 are as follows:

Year		Amount
2008	$	71,877
2009		94,458
2010		99,258
2011		71,250
2012		9,588
	$	346,431

Bank loans establish certain restrictive covenants, the most significant of which refer to limitations on dividend payments and compliance with certain financial ratios. As of the date of the financial statements, all such covenants have been complied with.

11. Accruals-

Accruals are comprised as follows:

		Salaries and other employee benefits	Other	Total
Balances as of December 31, 2005	$	35,960	59,730	95,690
Increases charged to operations		94,039	114,232	208,271
Payments		(59,339)	(47,270)	(106,609)
Balances as of December 31, 2006	$	70,660	126,692	197,352

12. Comprehensive financing result-

Comprise the following:

		2006	2005
Interest expenses, net	$	**(46,244)**	(37,426)
Foreign exchange loss, net		**(2,186)**	(255)
Gain (loss) on monetary position		**510**	6,000
	$	**(47,920)**	(31,681)

13. Other expenses, net-

		2006	2005
Loss on fixed asset disposals, net	$	**(16,372)**	(21,713)
Allowance for impairment, goodwill and business disinvestments		–	(15,463)
Other (expense) income, net		**(4,458)**	20,111
	$	**(20,830)**	(17,065)

14. Labor obligations-

Liabilities pertaining to seniority premiums and severance upon termination of employment for reasons other than restructuring, to which employees are entitled in accordance with the law, are charged to operations for the year in which such services are rendered, based on actuarial computations.

The Company has not set up a trust to cover these benefits. The actuarial calculations are summarized below:

		Seniority premiums		Severance		Total	
		2006	2005	2006	2005	2006	2005
Accumulated benefit obligations	$	**3,239**	1,817	**15,162**	12,892	**18,401**	14,709
Transition obligation and unamortized items		**289**	388	**(6,688)**	(9,401)	**(6,399)**	(9,013)
Projected benefit obligation		**3,528**	2,205	**8,474**	3,491	**12,002**	5,696
Additional liability		**138**	–	**5,865**	8,398	**6,003**	8,398
Accrued liability	$	**3,666**	2,205	**14,339**	11,889	**18,005**	14,094

Net periodic cost is as follows:

		Seniority premiums		Severance		Total	
		2006	2005	2006	2005	2006	2005
Service cost	$	**728**	411	**8,955**	7,279	**9,683**	7,690
Interest cost		**103**	57	**396**	371	**499**	428
Amortization of transition obligation		**(97)**	98	**1,050**	1,321	**953**	1,419
Net periodic cost	$	**734**	566	**10,401**	8,971	**11,135**	9,537
Discount rate		**4.5%**	4.5%	**4.5%**	4.5%		
Increase salary rate		**0.5%**	0.5%				
Amortization period of average transition obligation (years)		**7.1**	5.7	**7.2**	6.9		

15. Income tax (IT), asset tax (AT), employees' statutory profit sharing (ESPS) and tax loss carryforwards-

The Company determines IT and AT on a consolidated basis. In conformity with the IT Law, tax consolidation was determined at 100% of the equity interest subject to consolidation of Mexican controlled companies including the holding company.

For the years ended December 31, 2006 and 2005, the Company determined a net consolidated taxable income of $704,047 and $447,741, respectively.

The expense attributable to income before IT and ESPS differed from the amount computed, by applying the Mexican rate of 29% and 30% in 2006 and 2005, respectively, as a result of the following items:

	2006	2005
Expected IT rate	**29%**	30%
Non-deductible expenses	**2%**	1%
Effects of inflation, net	**1%**	1%
Effects of enacted changes in tax laws and rates	**1%**	(2%)
Other, net	**1%**	(2%)
Effective consolidated IT rate	**34%**	28%

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities, as of December 31, 2006 and 2005, are shown below:

	IT	
	2006	2005
Deferred tax (assets) liabilities:		
Allowance for doubtful accounts	**$ (1,823)**	(1,299)
Accruals	**(55,936)**	(24,643)
Advance payments from clients	**(1,258)**	(8,872)
Net operating tax loss carryforward, net of the valuation allowance	**(53,473)**	(29,492)
Recoverable AT	**(17,858)**	(15,045)
Inventories	**21,340**	22,370
Equipment, leasehold improvements and property	**(65,424)**	37,093
Other assets	**80,578**	49,526
Prepaid expenses	**7,545**	15,988
Net deferred tax (asset) liability	**(86,309)**	45,626
Income tax payable on retained earnings	**466**	1,307
Deferred ESPS	**–**	(2,728)
(Assets) liabilities recognized in the balance sheets	**$ (85,843)**	44,205

The valuation allowance amounted to $111,172 and $101,079 in 2006 and 2005, respectively.

IT and ESPS charged to income are analyzed as follow:

	2006		2005	
	IT	ESPS	IT	ESPS
Current	**$ 230,495**	**1,597**	163,968	13,298
Deferred	**(109,575)**	**1,175**	(47,757)	(2,476)
Total	**$ 120,920**	**2,772**	116,211	10,822

The Company's subsidiaries have unamortized tax losses of $235,814, which, restated for inflation, may be carried forward to offset taxable income in the ten succeeding years

Beginning January 1, 2007 the amendments to the AT Law went into effect, which provides a reduction in the tax rate from 1.8% to 1.25%, without deducting liabilities from the AT tax base.

In conformity with the tax amendments published on December 1, 2004, the IT rates were changed to 29% for 2006, and 28% for 2007. As a result of these changes, during the years ended December 31, 2006 and 2005, the Company recognized a decrease in net deferred tax of $ 2,445 and $10,004, respectively, which was charged or credited to the results of operations for each year.

From 2005, inventories are deductible at the time they are sold. Rules are in place for the taxation of inventories at December 31, 2004 in future periods that depend on each particular entity circumstances, which led to the deferred liability shown in the previous page.

16. Stockholders' equity-

The principal characteristics of stockholders' equity are described below:

(a) Structure of capital stock-

Capital stock and additional paid-in capital are shown below (see notes 1(a) and 1 (b)):

		Amount		
	Number of shares		Capital stock	Additional paid-in capital
Balances as of December 31, 2004	124,222,344	$	451,201	280,883
January 2005, increase and payment of shares issued in 2004	286,554		–	5,082
March 2005, merger of Operadora West into Alsea	9,737,166		20,775	82,679
August 2005, acquisition of the minority interest of SC de México	2,172,068		5,161	(1,938)
Shares repurchased in 2005	154,750		322	–
Balances as of December 31, 2005	136,572,882		477,459	366,706
April 2006, primary public offering increased the stockholders' equity. The related expenses of $31,766, were offset in the additional paid-in capital	16,257,200		33,636	649,593
April 2006, stock option plan for executives	1,471,631		3,030	1,225
May 2006, acquisition of the minority interest of Gastrosur (formerly Grupo Alimentos y Diversión)	1,260,586		2,604	33,461
Shares repurchased in 2006	253,000		529	–
Balances of December 31, 2006	155,815,299	$	517,258	1,050,985

In April 2006 and 2005, dividends were declared in the amount of $161,626 and $104,130, respectively.

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

As of December 31, 2005, the subscribed fixed and variable capital stock, represented by 155,815,299 common, registered shares with no par value, are as follows:

Number of shares	Description	Amount
122,289,370	Fixed capital stock	$ 244,578
33,543,360	Variable capital stock	67,087
(17,431)	Repurchased shares	(35)
155,815,299	Nominal capital stock	311,630
	Inflation adjustments to remeasure accumulated inflation (note 2(o))	205,628
	Capital stock as of December 31, 2006	$ 517,258

In November 2006, the stockholders agreed to carry out a share restructuring, dividing the minimum fixed portion (Class I) and variable (Class II) of the capital stock; the Company executed a four-to-one split, without modifying the capital stock. Consequently, the current shares of 122,289,370 (Class I) and 33,543,360 (Class II) were canceled, and exchanged for 489,157,480 and 134,173,440 shares, respectively. This split went into effect in February 2007, date in which authorization from the National Registry of Shares was obtained.

The National Banking and Insurance Commission established a procedure enabling companies to repurchase their own shares in the market. Accordingly, a "stock repurchase reserve", chargeable to retained earnings, must be provided for. In 2006, the Company repurchased 253,000 shares amounting to $12,873.

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

(b) Stock option plan for executives-

Alsea established a stock option plan for its executives. The plan started in 2005 and expires on December 31, 2009. The executives obtained the benefit of receiving the appreciation rights for certain shares (the difference between the price of shares at the beginning of the plan ($22.80) and the fair value of the option ($33.93) payable in shares. At the General Stockholders' Meeting, the Board agreed to assign 1,471,631 shares to this plan, to be managed through a trust.

At the 2006 year end, the executives exercised 20% of the rights acquired at that date ($4.20 per share) and the remaining 80% can only be exercised at the end of the plan.

As of December 31, 2006, the total liability of $15,675 arising from the plan is recorded as part of accruals.

(c) Restrictions on stockholders' equity-

I. Five percent of net income for the year must be appropriated to the statutory reserve, until it reaches one-fifth of the Company's capital stock. As of December 31, 2006, the statutory reserve amounts to $43,927.

II. Dividends paid out of retained earnings will be tax-free to the extent those dividends arise from the CUFIN (after tax earnings account). Distributions in excess of these amounts are subject to a 28% income tax rate on the amount resulting from multiplying the dividend paid by a factor of 1.3889. The tax incurred on non-CUFIN dividends will be payable by the Company and may be offset against the corporate IT for the two succeeding years.

17. Commitments and contingencies-

Commitments:

a) The Company leases the facilities in which its stores and distribution centers are located, as well as certain equipment under limited-term lease agreements. Rental expense amounted to $328,228 and $210,160 in 2006 and 2005, respectively. Rental expenses for 2007 are estimated to amount to $449,894. Aforementioned expenses were established at fixed prices and increase annually based on the NCPI.

b) The Company has some commitments related to the provisions set forth by the contracts for the trademarks acquired (note 2(j)).

c) The Company has commitments arising in the normal course of business as a result of raw material supply agreements, some of which establish contractual penalties for noncompliance.

d) As a result of a service agreement, the Company is required to pay a compensation based on net food sales. This compensation ranges from 2.5% to 5.25%.

Contingent liabilities:

Alsea and subsidiaries are involved in a number of lawsuits and claims arising in the ordinary course of business. The final outcome of these matters is not expected to have a significant adverse effect on the Company's financial position.

18. Financial information by segments-

Alsea organizes its business segments into three operating divisions namely: the sale of food and services, distribution services and other business; the management of these divisions is carried out by the same administration.

Segment information is as follows (amounts in millions of pesos):

		Food and Beverages											
		Mexico		South America	Distribution		Others		Eliminations		Consolidated		
		2006	2005	2006	2006	2005	2006	2005	2006	2005	2006	2005	
Revenue from:													
Third parties	$	**4,571**	3,589	**334**	**890**	888	**13**	19	**–**	–	**5,808**	4,496	
Inter-business		**4**	6	**–**	**1,355**	1,145	**1,323**	994	**(2,682)**	(2,145)	**–**	–	
		4,575	3,595	**334**	**2,245**	2,033	**1,336**	1,013	**(2,682)**	(2,145)	**5,808**	4,496	
Operating costs and expenses		**3,870**	3,141	**296**	**2,050**	1,867	**1,320**	1,020	**(2,699)**	(2,215)	**4,837**	3,813	
Depreciation and amortization		**499**	177	**14**	**24**	23	**12**	12	**2**	(1)	**551**	211	
Operating income	$	**206**	277	**24**	**171**	143	**4**	(19)	**15**	71	**420**	472	
Other income statement items											**(206)**	(201)	
Net consolidated income											**$ 214**	271	
Assets	$	**2,780**	2,745	**533**	**625**	612	**3,787**	3,132	**(4,572)**	(3,849)	**3,153**	2,640	
Investment in associated companies		**6**	–	**3**	**6**	4	**–**	–	**–**	–	**15**	4	
Investment in assets		**660**	482	**5**	**25**	23	**45**	95	**–**	–	**735**	600	
Total assets	$	**3,446**	3,227	**541**	**656**	639	**3,832**	3,227	**(4,572)**	(3,849)	**3,903**	3,244	

19. Pro forma information on business acquisitions-

Condensed pro forma consolidated financial information is shown below, as if the acquisitions had been completed at the beginning of 2006 and 2005 (see note 1(b)).

	December 31, 2006			
		Base figures	Pro forma adjustments (unaudited amounts)	Pro forma figures (unaudited amounts)
Income	$	**5,808,117**	**150,158**	**5,958,275**
Income from continuing operations		**229,240**	**(4,040)**	**225,200**
Consolidated net income		**220,348**	**(4,040)**	**216,308**
Minority interest		**6,218**	–	**6,218**
Majority interest net income		**214,130**	**(4,040)**	**210,090**
Net earnings per share	$	**1.45**		**1.42**

	December 31, 2005			
		Base figures	Pro forma adjustments (unaudited amounts)	Pro forma figures (unaudited amounts)
Income	$	4,496,196	557,678	5,053,874
Income from continuing operations		275,529	(7,317)	268,212
Consolidated net income		274,884	(1,879)	273,005
Minority interest		3,702	2,533	6,235
Majority net income		271,182	(4,412)	266,770
Net earnings per share	$	2.04		2.01

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Chief Financial Officer

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Information on Alsea's stock
The shares of Alsea, S.A.B. de C.V. single series, have been traded on the Mexican Stock Exchange (Bolsa Mexicana de Valores or BMV) since June 25, 1999.
Ticker symbol: BMV Alsea*

The Alsea 2006 Annual Report may include certain expectations regarding the results of Alsea S.A.B. de C.V. and its subsidiaries. All such projections, which depend on the judgment of the Company management, are based on up-to-date, known information; however, expectations may vary as a result of facts, circumstances and events beyond the control of Alsea and its subsidiaries.

This Annual Report is printed on environmentally friendly paper containing at least 10% of post-consumer fiber and with Elemental Chlorine Free (ECF) bleaching papermaking.

We would like to extend our thanks to all our clients, employees and staff who participated in this Annual Report.

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