2007 ANNUAL REPORT

# KNOWS HOW

# ALSEA'S TERRITORY

# 989

stores

## MEXICO

565 Domino's Pizza
195 Starbucks Coffee
107 Burger King
9 Popeyes
23 Chili's Grill & Bar

LATIN AMERICA

## ARGENTINA

32 Burger King

## CHILE

29 Burger King
21 Starbucks Coffee

## BRAZIL

8 Starbucks Coffee

# OUR COMPANY

**Corporate Profile**

Alsea is the leading restaurant operator in Latin America—operating brands of proven success such as Domino's Pizza, Starbucks Coffee, Burger King, Popeyes and Chili's Grill & Bar. The operation of its 989 stores is backed by its Shared Services Center, including the supply chain through DIA, real estate and development services, as well as administrative services such as finances, 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 the people"**

**Values**
**What makes us great:**

- People, our most important asset
- Customer service
- Respect and loyalty
- Personal excellence
- Commitment
- Oriented to results

**Vision**
**Where we are headed:**

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

**Strategic Areas**
**We work for:**

SA1 People are our priority
SA2 To surpass the customer's expectations with operating excellency
SA3 To be the market leader
SA4 To be the best strategic partner
SA5 To grow while keeping the company and our shareholders' investment safe
SA6 Social responsibility

## At Alsea we know:

How to have the best people
How to operate
How to develop brands
How to grow with profitability
How to continue growing
How to be socially responsible

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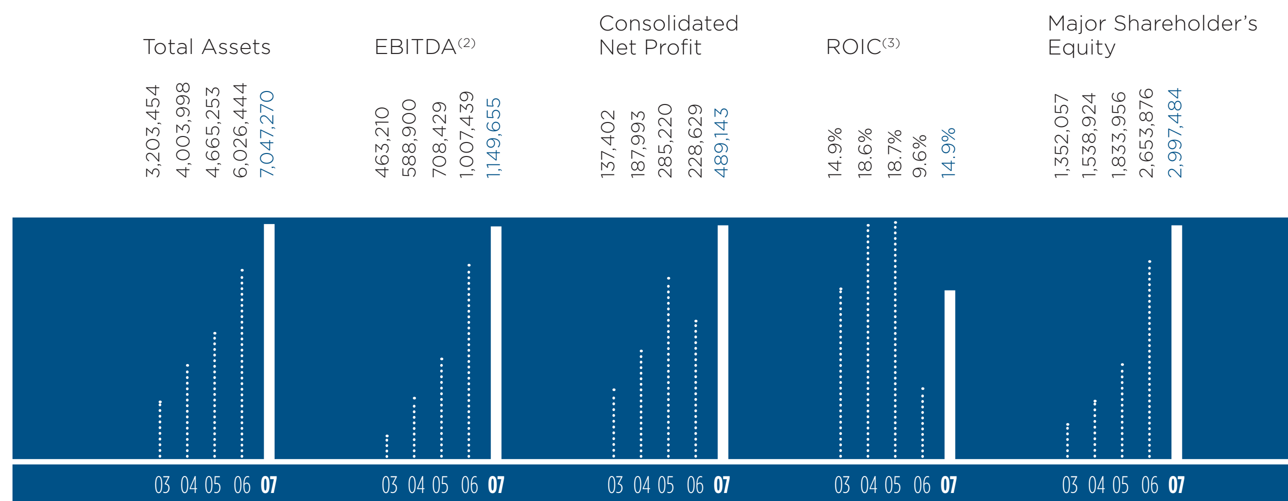
# FINANCIAL HIGHLIGHTS[1]

| | % CAGR[6] | 2007 | % | 2006 | % | 2005 | % | 2004 | % | 2003 | % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 21.8 | 7,047,270 | 100.0 | 6,026,444 | 100.0 | 4,665,253 | 100.0 | 4,003,998 | 100.0 | 3,203,454 | 100.0 |
| Gross Profit | 27.0 | 4,685,201 | 66.5 | 3,959,929 | 65.7 | 2,896,186 | 62.1 | 2,307,507 | 57.6 | 1,802,066 | 56.3 |
| Operating Expenses | 31.3 | 3,984,657 | 56.5 | 3,523,848 | 58.5 | 2,406,625 | 51.6 | 1,718,607 | 42.9 | 1,338,857 | 41.8 |
| Operating Income | 25.4 | 700,544 | 9.9 | 436,081 | 7.2 | 489,561 | 10.5 | 391,313 | 9.8 | 283,084 | 8.8 |
| EBITDA[2] | 25.5 | 1,149,655 | 16.3 | 1,007,439 | 16.7 | 708,429 | 15.2 | 588,900 | 14.7 | 463,210 | 14.5 |
| Consolidated Net Profit | 37.4 | 489,141 | 6.9 | 228,629 | 3.8 | 285,220 | 6.1 | 187,993 | 4.7 | 137,402 | 4.3 |
| | | | | | | | | | | | |
| Total Assets | | 5,300,132 | 100.0 | 4,040,466 | 100.0 | 3,365,885 | 100.0 | 2,381,742 | 100.0 | 2,006,113 | 100.0 |
| Cash | | 209,327 | 3.9 | 244,262 | 6.0 | 171,261 | 5.1 | 158,920 | 6.7 | 229,592 | 11.4 |
| Liabilities with Cost | | 832,748 | 15.7 | 610,868 | 15.1 | 798,262 | 23.7 | 106,570 | 4.5 | 167,700 | 8.4 |
| Major Shareholder's Equity | | 2,997,484 | 56.6 | 2,653,876 | 65.7 | 1,833,956 | 54.5 | 1,538,924 | 64.6 | 1,352,057 | 67.4 |
| | | | | | | | | | | | |
| ROIC[3] | | 14.9% | | 9.6% | | 18.7% | | 18.6% | | 14.9% | |
| ROE[4] | | 16.5% | | 9.1% | | 16.9% | | 13.0% | | 10.5% | |
| ROA[5] | | 10.3% | | 5.9% | | 9.9% | | 8.6% | | 7.0% | |
| | | | | | | | | | | | |
| Stock Price[7] | 58.9 | 15.30 | | 14.72 | | 6.94 | | 5.99 | | 2.40 | |
| Earnings per Share[7] | 27.1 | 0.77 | | 0.38 | | 0.51 | | 0.33 | | 0.30 | |
| Dividend paid per Share[7] | | 0.11 | | 0.28 | | 0.19 | | 0.16 | | 0.10 | |
| Book Value per Share[7] | | 4.88 | | 4.26 | | 3.24 | | 2.98 | | 2.79 | |
| Shares Outstanding (millions)[7] | | 618.8 | | 623.2 | | 546.4 | | 496.8 | | 467.2 | |
| | | | | | | | | | | | |
| Number of Total Stores | | 989 | | 865 | | 728 | | 626 | | 560 | |
| Employees | | 19,200 | | 16,797 | | 13,629 | | 10,483 | | 7,336 | |

(1) Figures in thousands of pesos, expressed in purchasing power as of December 31, 2007, except per share data, number of stores and employees.
(2) EBITDA: Operating income before depreciation and amortization.
(3) ROIC is defined as the operating income after taxes divided by the invested capital – net (total assets – cash and cash equivalents – liabilities without cost).
(4) ROE is defined as net profit divided by major shareholder's equity.
(5) ROA is defined as net profit divided by total assets.
(6) Compound annual growth rate from 2003 to 2007.
(7) For comparative purposes, the number of shares was adjusted based on the split of 4 to 1 carried out in 2007.



# LETTER OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

## One of our main objectives at the start of 2007 was to open 100 more stores than the amount we had at the end of last year

To our Shareholders,

Thank you so much for taking the time to read this annual report, in which we will discuss Alsea's results as well as our accomplishments, objectives and the business strategy used to achieve them.

Alsea grew significantly in 2007, not only in terms of financial results but also in the institutionalization process we have undertaken as well as the consolidation of our human team, which already totals more than 19,000 employees. Additionally, we have strengthened our senior management team with which Alsea's future growth will be insured in alignment with our goals.

When our team questioned the concept that governs this 2007 Annual Report, many ideas were opened up for discussion. We finally agreed that the phrase "Alsea Knows How" is what best defines us as a team and as a company. In 2007, our sales totaled slightly over 7 billion pesos, accounting for a 16.9% increase year over year. Our net income went up to 489 million pesos, accounting for earnings per share of 0.7690 pesos. These results prove that we know how to use all our experience and talent in businesses that are well focused, profitable and with an extraordinary projection moving forward.

One of our main objectives at the start of 2007 was to open a 100 more stores than the amount we had at the end of last year. This objective was surpassed, since we opened a total of 117 corporate stores in 2007, totaling 989 stores in Mexico and Latin America at year-end. This is a clear example of the pace at which Alsea grows and of the conditions we have been able to maintain within the company at present, so that all our processes, plans and business strategies are in alignment with our vision and can be operated expeditiously.

This has been possible thanks to the experience we have gained—since our beginnings—in managing and growing successful brands in the QSR (quick service restaurant) segment and recently in the casual-dining segment. Now, more than 17 years after Alsea started up operations, it has developed a business model of proven success that has not only allowed us to maintain growth rates with the expected profitability, but has also led the owners of such brands to place their trust in Alsea in order for it to operate them and make them grow in other markets within the region. Proof of this is that a considerable portion of our annual growth already derives from our operations in Latin America, where we are currently present in Argentina, Chile and Brazil.

Alsea's financial position at year-end 2007 provides us with the necessary solidity to take advantage of the growth opportunities within the QSR and casual-dining segments both in Mexico as well as in Latin America. By continuing to develop our portfolio's existing brands and adding other successful brands, we will consolidate our position as the leading restaurant operator in Latin America.

We know that in order to reach our growth objectives, we need to make sure that each of our stores has the right and properly trained personnel, while offering the best customer service at all times as well as having adequate facilities to provide our clientele with the best experience ever. We also need to make sure that the quality of our products surpasses the expectations of our consumers. Thus, in line with these convictions, during 2007 we made important investments in stores, training centers and offices, so as to improve the development and work conditions of our personnel, which in turn enables us to boost productivity.

Without a doubt, 2008 will be a year of challenges: on the one hand, we have set growth goals that are even more aggressive than those of 2007, such as our objective to open more than 135 total stores of the different brands that we operate. In addition to this organic growth of our existing brands, we will invest in consolidating our participation in the casual dining segment and continue to develop some of our brands in Latin America. To do so, we must continue to surpass the expectations of our consumers, by having the best trained personnel and by being innovative, which has enabled us to position several of our brands as market leaders.

At Alsea we are aware of the responsibilities of our company in an ever-changing country with great social inequalities, such as Mexico. It is for this reason that social responsibility is one of our strategic work lines and represents the pursuit of excellence in each of our actions.

Within our company we do not do business without taking social responsibility into account, since this allows us to be closer to people and their needs, and this is how we work for Mexico.

We will address the opportunities that will arrive in 2008 with the same passion and entrepreneurial spirit that have led Alsea to occupy the indisputable leadership within its category, while working to provide our shareholders with the return they expect and offering our clientele the products we are already proud of.

Sincerely,

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

Alberto Torrado
**Executive President**

# WE KNOW HOW TO HAVE THE BEST PEOPLE

## During 2007, Alsea decreased its turnover rate by 18 percentage points thanks to the focus we have on our people, one of the core strategies of our business.

At Alsea, we know that the talent of our personnel is the driving force that has led and will continue to lead us down the path of success. Our business is a people business, and it is through our employees that we always strive to surpass the expectations of our consumers.

We focus all our efforts and strategies on identifying, recruiting, training and retaining the very best talents.

We are continuously designing human resources programs that acknowledge and reward our people for generating value and excellent service for our external and internal clients. We have created total compensation concepts in which, in addition to paying competitive salaries, we have also established training programs that support our people with skill development opportunities, career plans and quality of life.

Because we value diversity, we have implemented an equal opportunity and employment program through which we hire people with different capacities and senior citizens, so as to actively integrate them into society and help them raise their quality of life and that of their families. At year-end, 118 people with different capacities and 21 senior citizens were part of our human team; additionally, 48% of our employees are women.

At Alsea, we know that our people are the competitive advantage that makes us winners and, thanks to the commitment and success mentality of all our employees, we have consolidated our leadership position. In 2008, we are aiming even higher...

## During 2007, our headcount totaled 19,200 people, positioning Alsea as one of the largest generators of employment in Mexico and Latin America.

In tune with our strategic plan, 2007 was a year in which we implemented our new organizational structure, which ensures our ability to achieve expected future growth and allows us to take advantage of the opportunities.

Alsea is the entry door into the labor market for many young Mexicans; the average age of our employees is less than 25 years.

We have comprehensive training and career plans that contribute to the growth of our people, enabling us to develop in-house the talent required to accomplish our growth plans.

During 2007, Alsea generated more than 2,400 new jobs in Mexico and Latin America.

**19,200**

employees and 2,400 new jobs in 2007

In order to have the best prepared talent, we invested approximately 20 million pesos and gave more than 39,000 hours of training.

# WE KNOW HOW TO OPERATE

**In 2007, through the different brands we operate, we had a total of more than 88 million satisfied customers.**

## The experience and commitment of all our employees make it possible for us to offer top-quality products, satisfying the needs and surpassing the expectations of our customers.

We know how to operate the different brands of our portfolio, while maintaining quality standards and the expected level of customer service.

At year-end 2007, Alsea had 989 stores in the four countries in which it operates, thereby reinforcing its position as the leading restaurant operator in Latin America.

During the year, the company increased its number of corporate units by 117, both in Mexico as well as in Latin America, totaling 806 corporate stores. It has operations in three countries and in more than 140 cities.

Our delivery commitment for the 1,157 stores serviced by DIA—which comprise 745 corporate stores in Mexico, 154 stores of Domino's Pizza subfranchisees, and 258 Burger King stores of other franchisees—is "complete and on time".

We know how to generate economies of scale, which enable us to obtain the best prices of the different consumables used by our brands.

During 2007, we traveled 9,241,569 kilometers.

**In 2007, DIA produced a total of 16.6 million kilograms of dough for the Domino's Pizza Mexico system.**

# WE KNOW HOW TO DEVELOP BRANDS

**Thanks to the results of Starbucks Coffee in Mexico, we have become Starbuck's strategic partner in the region.**

## At year-end, Domino's Pizza Mexico had 565 units, of which 411 are corporate stores and 154 subfranchisee stores.

**Domino's Pizza**
In terms of number of stores, we continue to be the most important country for Domino's Pizza after the United States of America.

During 2007, we consolidated several initiatives at Domino's, such as renewing the menu, accepting credit cards at all our stores and conducting successful promotions, with which we reaffirmed our position as market leader.

Thanks to our good results, we continue to expand our store remodeling program and, at year-end, 64 units were already operating under the new "20/20 store" format.

**Starbucks Coffee**
After five years of operation, in 2007 Starbucks Coffee had a total of 195 units in Mexico, with 78 openings during the year.

At year-end 2007, Starbucks was present in only 23 cities of the 15 states in Mexico, which clearly proves the outstanding growth opportunities that exist nationwide.

In 2008, we plan to open 111 Starbucks stores in Mexico and Latin America to consolidate our leadership in this category.

**Burger King**
Burger King Mexico surpassed the 100-unit benchmark, by opening 13 new units. Thus at year-end we had 107 stores.

In less than two years, Alsea consolidated its development team for Latin America, as a result of which in 2007 it opened 11 units, six of which were Burger King stores in Chile and five of which were Burger King stores in Argentina.

Thanks to the development of new units and to the growth of same-store sales, Burger King Latin America's contribution to the consolidated income of Alsea increased 9.1%.

**Chili's**
Slightly over two years after Chili's was acquired, the size of the brand has more than doubled, from 10 to 23 units, accounting for 4.6% of Alsea's consolidated sales.

**In 2007, Alsea opened 6 new Chili's units.**

# WE KNOW HOW TO GROW WITH PROFITABILITY

## Alsea's profitability increased, achieving a ROIC(1) of 14.9% during 2007, compared to 9.6% last year.

Income grew 16.9%, with which sales were in excess of 7 billion pesos.

In the last five years, Alsea's EBITDA has grown at a compound annual rate of more than 25%.

During 2007, net income grew 113.9%.

Earnings per share increased 104.9%, to 0.7690 pesos per share.

Alsea has the necessary capital structure to face its organic growth plans, continue making acquisitions, and meet its dividend policy of 30% of net income.

In 2007, Alsea invested a total of slightly over 1 billion pesos, of which approximately 95% were allotted to the expansion plan, the refurbishment of existing stores and the renewal of assets.

Share liquidity increased to an average of 1.4 million pesos per day, as a result of which Alsea achieved its objective of being included in the Mexican Stock Exchange Index sample.

In 2007, sales grew

**16.9%**

**In 2007, a dividend of 0.1061 pesos per share was declared and paid.**

(1) ROIC is defined as the operating income after taxes divided by the invested capital - net (total assets - cash and temporary investments - liabilities without cost).

# WE KNOW HOW TO CONTINUE GROWING

**The organic growth plan estimates a 13.7% compound annual growth rate to arrive at 1,800 stores in five years.**

"La Florida" Burger King store, Buenos Aires, Argentina



## To ensure Alsea's profitable growth moving forward, our business strategy is founded on five pillars.

### Organic Expansion Plan

In 2007, we opened 124 total stores, 78 of which were opened by Starbucks Coffee in Mexico.

From 2003 to 2007, we increased our number of total stores at a compound annual growth rate of more than 15%.

In 2008, Alsea plans to open more than 135 units of its different brands to total more than 1,120 total stores by year-end.

### Same-store Sales Increase

Alsea coordinates a series of continuous improvement projects and services for our points of sale, based on customer service, by adopting better practices, innovating products, optimizing supply-chain processes and training our employees on an ongoing basis.

Every day, the commercial departments of each brand grow closer to their consumers, in order to provide them with the product offer that best matches their preferences with quality and promptness.

### Potential Acquisitions

In 2007, we acquired seven Domino's Pizza subfranchisee stores.

During the last three years we acquired 114 stores—including the units of Domino's Pizza subfranchisees, Burger King franchisees in Mexico, a Chili's franchisee and all the Burger King stores in Argentina and Chile—as well as an 18% interest in Starbucks Chile.

We will continue to pursue opportunities to acquire successfully developed brands that will enable us to continue generating value for our shareholders, as has been the case of the Chili's results.

"Isidora" Starbucks Coffee store, Santiago de Chile

**During 2007, we achieved a 1.3% same-store sales increase in real terms.**

"Tecnoparque" Starbucks Coffee store, Mexico City

**We will continue to analyze future opportunities to develop brands of proven success in Mexico both in the fast-food as well as in the casual-dining segments.**

## In November of 2007, Alsea signed a definite agreement with Starbucks Coffee International, Inc. to operate and develop the Starbucks Coffee brand in Argentina and to participate in the operation of the brand in Chile.

### Adding New Brands

We are aware of the potential of the casual-dining segment, and have thus implemented a strategy to develop a multi-brand portfolio in this segment.

We can add new brands either by acquiring an existing brand or by beginning to develop new brands.

### Expansion towards Latin America

Alsea's strategy for expanding into Latin America considers participating only in the four major economies of the region, namely Brazil, Argentina, Chile and Colombia.

Latin American markets represent a huge growth potential for Alsea. In fact, in less than two years, more than 9.1% of the company's net sales are attributable to the Burger King operations in Argentina and Chile.

At year-end 2007, Starbucks Chile operated 21 stores and Starbucks Brazil 8 units; also, our objective is to further strengthen the presence of the brand in these countries with 13 openings during 2008.

In 2008, we will begin to develop the Starbucks Coffee brand in Argentina, and thus plan to open the first store in Buenos Aires during the first half of the year.

# WE KNOW HOW TO BE SOCIALLY RESPONSIBLE

Alsea's everyday concerns include improving each of its internal and external processes, complying with existing regulations and legislation, offering its employees the best work conditions, and maintaining the highest quality and service standards.

Every day, we work with the firm commitment to support and build a more competitive domestic economy. At Alsea we are aware of our role in community development. We are therefore clearly committed to the building of a more fair and equitable Mexico, through solid entrepreneurial performance and above all by being responsible towards our people, shareholders, suppliers, clients and the community.

Today, we do not do business without taking social responsibility into account in each and every one of our decisions. To this end, we created a specific Social Responsibility Department that regulates, coordinates and structures all the social responsibility endeavors of Alsea and its brands.

The social responsibility and community outreach efforts of Alsea are conducted through Fundación Alsea, A.C. and the brands.

## Since it was created, Alsea's foundation has contributed more than 13 million pesos to improve the quality of life of more than 15,000 people.

Fundación Alsea A.C. was incorporated in June of 2004 and focuses its efforts on building a more balanced Mexico, while helping a greater number of people to develop under more egalitarian conditions.

Fundación Alsea A.C. obtains its resources from the brands, which as a result of an institutional policy requested by the Board of Directors, donate 1% of their net income of the previous year. Other sources of income include the donations given by founding partners, voluntary employee donations given through the company's payroll, Domino's Pizza subfranchisees and Alsea suppliers.

The highlights of 2007 nationwide are:

- 47,403 people benefited
- 42 institutions that were supported
- 4,500 volunteers
- 68,329 toys donated
- 26,605 trees planted in Chiapas, Mexico City, Guadalajara, Oaxaca, Puebla, Tabasco and Veracruz
- 72 tons of donations in kind
- 8,859 individual pizzas that were donated
- 83% of our suppliers are Mexican companies
- Support was given to the flood victims in Tabasco and Chiapas:
  - Through donation stations at our offices, distribution centers and 84 Starbucks.
  - 30 tons of food items delivered to the Mexican Red Cross, directly in Tabasco, thanks to DIA.
  - $1 million pesos donated to the Mexican Red Cross, thanks to Domino's Pizza and its clients.
- Starbucks Coffee ranks 2nd in Mexico among the best companies that work with the Special Fellowship Award

# MANAGEMENT

## WE KNOW HOW TO SERVE OUR CLIENTS

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

Armando Torrado
Casual Dining Director

Héctor Orrico
Managing Director, DIA

## WE KNOW HOW TO SUPPORT OUR BRANDS

Cosme Torrado
Chairman of the Board of Directors

Alberto Torrado
Executive President

Arturo Barahona
Chief Executive Officer

José Rivera Río
Chief Financial Officer

Sergio Mirensky
Corporate Director, Strategic Planning

Rafael Cancino
Corporate Director, Human Resources

Mario Sánchez
Corporate Director, Internal Audit

# BOARD OF DIRECTORS

**Chairman**

Cosme Alberto Torrado Martínez
Chairman of the Board of Alsea

**Shareholder Board and Staff Members**

Alberto Torrado Martínez
Executive President of Alsea

Armando Torrado Martínez
Casual Dining Director

Fabián Gerardo Gosselin Castro
Managing Director, Burger King

Federico Tejado Bárcena
Managing Director, Domino's Pizza

Arturo Barahona Oyervides
Chief Executive Officer 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, President

Sergio Mario Larraguivel Cuervo
Anesla, S.A. de C.V., Founder Senior Manager

**Secretaries**

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

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

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**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

Sergio Mario Larraguivel Cuervo
Member

José Rivera Río Rocha
Secretary

# Management Discussion & Analysis

**Sales**

Net sales increased 16.9% to 7,047.3 million pesos in 2007, compared to 6,026.4 million pesos during the last year. This increase was attributable to revenue growth in all our brands and, to a lesser extent, to the increase in food distribution sales made to third parties.

The sales growth in all our brands was due to the opening of 117 corporate stores (including the acquisition of 6 Domino's Pizza units) and to the 1.3% same-store sales growth for the entire year of 2007, thanks to the favorable performance of this indicator in the Starbucks Coffee Mexico stores, and to the successful remodeling program of existing stores in Mexico and Latin America, as well as to the launching of several promotions in the different brands that make up our portfolio.

**Gross Profit**

Gross profit increased 0.8 percentage points, as a result of the revenue mix in Alsea's portfolio, owing to the fact that the business units with the highest growth in sales at present are the units with the lowest cost as a percentage of sales. This was partially offset by the price hike of some of our main raw materials and the effect of the price strategy related to the launching of different promotions among some of our brands.

**Operating Expenses**

Operating expenses (excluding depreciation and amortization) increased 1.2 percentage points as a percentage of sales, from 49.0% in 2006 to 50.2% in the last twelve months ended December 31, 2007. This was mainly attributable to the aforementioned revenue mix, as well as to the increase in advertising expenses; expenses related to the judicial proceeding we have opened to obtain the proper compliance with the Constitutional Relief *("Amparo")* Sentence regarding the 0% Value Added Tax rate on the food sales of our Domino's Pizza, Burger King and Popeyes stores; and, to a lesser extent, to the increase in expenses resulting from the changes in Alsea's organizational structure. These variations were partially offset by the marginality that was generated as a result of the increase in the number of units and the growth in same-store sales.

**EBITDA**

As a result of the aforementioned variations, EBITDA grew 14.1% to 1,149.7 million pesos in 2007, compared to 1,007.5 million pesos in 2006. The EBITDA margin declined 0.4 percentage points, from 16.7% in 2006 to 16.3% during the last twelve months ended December 31, 2007.

**Operating Income**

The operating income of 2007 increased 264.5 million pesos or 60.6%, mainly due to the fact that during the fourth quarter of the previous year the change in the useful life of certain fixed assets was recognized, and to the increase in EBITDA, which was partially offset by the increase in depreciation and amortization as a result of having acquired the assets related to the expansion plan as well as the acquisitions made in the last twelve months.

**Net Income**

Consolidated net income increased 260.5 million pesos, mostly due to the 264.5-million-peso increase in operating income, the positive variation of 18.7 million pesos in discontinued operations, and the 11.7-million-peso decrease in the comprehensive cost of financing. These variations were partially offset by the 19.2-million-peso increase in other expenses, the 12.5-million-peso increase in the income tax provision, and the negative variation of 2.7 million pesos in the interest in associated companies.

Earnings per Share (EPS) of the last twelve months ended December 31, 2007 increased 104.9% to 0.7690 pesos, compared to 0.3753 pesos of the last twelve months ended December 31, 2006.

## RESULTS BY SEGMENT

The following table sets forth the net sales and EBITDA by business segment, in millions of Mexican pesos, for the entire year of 2007 and 2006.

| Net Sales by Segment | | 2007 | Contr. % | | 2006 | Contr. % | % Var. |
|---|---|---|---|---|---|---|---|
| Food & Beverages Mexico | $ | 5,450.7 | 77.3% | $ | 4,747.0 | 78.8% | 14.8% |
| Food & Beverages Latin America | | 641.8 | 9.1 | | 346.6 | 5.8 | 85.2 |
| Distribution | | 2,620.2 | 37.2 | | 2,329.4 | 38.7 | 12.5 |
| Intercompany Operations[1] | | (1,665.4) | (23.6) | | (1,396.6) | (23.2) | 19.2 |
| **Consolidated Sales** | $ | 7,047.3 | 100.0% | | $6,026.4 | 100.0% | 16.9% |

| EBITDA by Segment | | 2007 | Contr. % | Margin | | 2006 | Contr. % | Margin | % Var. |
|---|---|---|---|---|---|---|---|---|---|
| Food & Beverages Mexico | $ | 833.8 | 72.5% | 15.3% | $ | 731.6 | 72.6% | 15.4% | 14.0% |
| Food & Beverages Latin America | | 73.5 | 6.4 | 11.5 | | 39.3 | 3.9 | 11.4 | 86.8 |
| Distribution | | 214.6 | 18.7 | 8.2 | | 202.3 | 20.1 | 8.7 | 6.1 |
| Other Businesses[2] | | 27.8 | 2.4 | N/A | | 34.2 | 3.4 | N/A | (18.8) |
| **Consolidated EBITDA** | $ | 1,149.7 | 100.0% | 16.3% | $ | 1,007.5 | 100.0% | 16.7% | 14.1% |

(1) For segment reporting purposes, intercompany operations are included in each of the segment operations.

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

### Sales per Brand

| Sales per Brand | | 2007 | % | | 2006 | % | Change % |
|---|---|---|---|---|---|---|---|
| Domino´s Pizza | $ | 2,869.3 | 47.1% | $ | 2,800.3 | 55.0% | 2.5% |
| Starbucks Coffee | | 1,125.6 | 18.5 | | 679.6 | 13.3 | 65.6 |
| Burger King Mexico | | 1,070.3 | 17.6 | | 974.2 | 19.1 | 9.9 |
| Burger King Latin America | | 641.8 | 10.5 | | 346.6 | 6.8 | 85.2 |
| Popeyes | | 61.1 | 1.0 | | 43.7 | 0.9 | 39.8 |
| Chili´s | | 324.4 | 5.3 | | 249.2 | 4.9 | 30.2 |
| **Total** | $ | 6,092.5 | 100.0% | $ | 5,093.6 | 100.0% | 19.6% |

**Food and Beverages Mexico**

2007 sales increased 14.8% to 5,450.7 million pesos, compared to 4,747.0 million pesos year over year. This increase of 703.7 million pesos is attributable to unit growth and to the growth in same-store sales.

EBITDA increased 14.0% during 2007, totaling 833.8 million pesos, which accounted for an EBITDA margin of 15.3%. This increase is the result of the growth in revenues and the marginality generated as a result of the foregoing.

**Food and Beverages Latin America**

The Food & Beverages Latin America Division increased revenues 85.2%, totaling 641.8 million pesos compared to 346.6 million pesos in 2006, which was partially due to the fact that these operations began to consolidate starting in May of 2006, to the growth in same-store sales and to the opening of eleven units during the last twelve months.

EBITDA increased 86.8%, totaling 73.5 million pesos, which accounted for an EBITDA margin of 11.5%, i.e. 0.1 percentage points more than in the year-ago period. This is attributable to the marginality effect generated by the same-store sales growth and the increase in the number of units.

**Distribution**

During 2007, distribution sales increased 12.5% to 2,620.2 million pesos, compared to 2,329.4 million pesos in 2006. This is attributable to the increase of 141 stores served, totaling 1,156 units at year-end 2007. Third-party revenues increased 2.4%, amounting to 967.1 million pesos.

EBITDA reached 214.6 million pesos compared to 202.3 million pesos in the year-ago period, which accounted for an EBITDA margin of 8.2%, i.e. 0.5 percentage points less than in the last year, mainly due to the price hike of some of the raw materials, as well as to the effect in the revenue mix, owing to the fact that the fastest-growing brands are the brands with lower margins for DIA.

## NON-OPERATING RESULTS

**Comprehensive Cost of Financing**

The comprehensive cost of financing in the entire year of 2007 declined 38.1 million pesos, compared to 49.7 million pesos during the same period of last year. This is attributable to the positive variation of 7.4 million pesos and 3.7 million pesos, respectively, in the foreign exchange result and the monetary position result and, to a lesser extent, to the 0.6-million-peso decrease in interest paid – net, owing to a lower level of average leverage.

**Other Expenses - Net**

This item increased 19.2 million pesos in 2007, mainly due to the recognition of the impairment of long-term assets used in Popeyes' operations, which was partially offset by the profit obtained from the sale of fixed assets related to the non-strategic asset sale program aimed at boosting the company's profitability.

**Income Taxes**

The Income Tax of 162.3 million pesos increased 12.5 million pesos during the twelve months ended December 31, 2007, compared to the year-earlier period, mostly due to the increase of 256.9 million pesos in earnings before taxes, which was offset by the application of tax losses.

**Interest in Associated Companies**

The interested in associated companies had a negative variation of 2.7 million pesos, mostly due to the net loss of Starbucks Coffee Brazil during the last twelve months ended December 31, 2007.

**Discontinued Operations**

The 18.7-million-peso positive variation in discontinued operations was mostly due to the effect of having reclassified the Domino's Pizza Brazil operations within this item, as well as to the income obtained from the proceeds of the sale of the stock ownership of 50% of Cool Cargo's capital stock.

**Minority Interest**

Minority Interest reached 10.7 million pesos in the twelve months ended December 31, 2007, compared to 6.5 million pesos in the year-ago period. This increase of 4.2 million pesos mostly reflects the increase in the net income of Starbucks Coffee Mexico.

## BALANCE SHEET

**Equipment, Leasehold Improvements and Property, Net**

The 541.6-million-peso variation is the result of the expansion plan and the acquisitions made in the last twelve months.

During the twelve months of 2007, Alsea invested a total of 1,081.4 million pesos, of which 1,021.0 million pesos were invested in store openings, renovation of equipment and the remodeling of the existing stores of all our brands, including the acquisition of the assets of Dopisin (a sub-franchisee of Domino's Pizza). The remaining 60.4 million pesos were invested, among other items, in the new production line of DIA, software and hardware equipment, as well as in the training facilities and the new corporate offices.

**Recoverable Taxes - Net**

The 339.8-million-peso increase in recoverable taxes – net of taxes payable, as of December 31, 2007, was mostly attributable to the Value Added Tax balance in favor of Operadora de Franquicias Alsea, S.A. de C.V. ("OFA"), which has not been refunded.

**Deferred Income Tax**

The Deferred Income Tax went from 89.0 million pesos as of December 31, 2006 to 214.4 million pesos at year-end 2007. This increase of 125.3 million pesos was mostly due to the recognition of the tax losses and, to a lesser extent, to the effect of the growth in accounts payable.

**Suppliers**

The 58.5-million-peso increase in suppliers was due to the growth in the company's volume of operations, partially offset by the one-day decrease in accounts payable to suppliers, which at December 31, 2007 was 39 days.

**Accounts Payable**

The 168.1-million-peso increase in accounts payable is mainly attributable to unpaid balances related to the 0% Value Added Tax rate on food sales, as well as the recognition of expenses related to the judicial proceeding we have opened to obtain the proper compliance with the Constitutional Relief *("Amparo")* Sentence and, to a lesser extent, to the increase in the provisions for expenses, such as the executive bonus and other operating expenses related to the company's growth.

**Debt**

As of December 31, 2007, Alsea's total debt increased 536.2 million pesos to 1,033.4 million pesos, compared to 497.3 million pesos on the same date last year. This increase is mainly attributable to the development plan of the company's brands, as well as to the acquisitions made in the last twelve months.

As of December 31, 2007, 67.6% of the debt was long term, compared to 72.3% at year-end 2006. On the same date, 94.8% of the debt was denominated in Mexican pesos and 5.2% in Chilean pesos. The Company's consolidated net debt—compared to 2006—increased 571.1 million pesos, totaling 824.1 million pesos at year-end 2007 compared to 253.0 million pesos at year-end 2006.

**Share By-back Program**

As of December 31, 2007, the company had a balance in the fund set aside for the 4,518,124 share by-back, equal to approximately 71.6 million pesos in nominal terms. During the twelve months ended December 31, 2007, the company bought back 4,448,400 shares (net), equal to 69.5 million pesos.

**Financial Ratios**

At year-end 2007, the company had complied with all the financial restrictions established in the long-term credit agreements. The net debt/EBITDA ratio was 0.72 times, the total liabilities/stockholders' equity ratio was 0.69 times, and the EBITDA/interest paid net ratio was 24.4 times.

The Return on Invested Capital (ROIC)[3] increased from 9.6% to 14.9% during the last twelve months ended December 31, 2007. The Return on Equity (ROE)[4] of the twelve months ended December 31, 2007 was 16.5% compared to 9.1% year over year. The increase in the aforementioned financial ratios is mostly due to the impact on results of the change in the useful life of certain assets that we recognized in the fourth quarter of 2006, as well as to the company's improved financial results during the last twelve months ended December 31, 2007. These effects were partially offset by the increase in recoverable taxes.

RELEVANT FIGURES

| Brand | Stores 2007 | Stores 2006 | Variation | % Annual Variation |
|---|---|---|---|---|
| Domino´s Pizza Mexico | 411 | 402 | 9 | 2.2% |
| Starbucks Coffee Mexico | 195 | 117 | 78 | 66.7 |
| Burger King Mexico | 107 | 94 | 14 | 13.8 |
| Burger King Argentina | 32 | 27 | 5 | 18.5 |
| Burger King Chile | 29 | 23 | 6 | 26.1 |
| Popeyes | 9 | 9 | 0 | 0.0 |
| Chili's Grill & Bar | 23 | 17 | 6 | 35.3 |
| **Total Corporate** | **806** | **689** | **117** | **17.0%** |
| Domino´s Pizza Brazil | N/A | 23 | (23) | N/A |
| Starbucks Coffee Chile | 21 | N/A | 21 | N/A |
| Starbucks Coffee Brazil | 8 | 2 | 6 | 310.0% |
| **Total Associates**[7] | **29** | **25** | **4** | **16.0%** |
| Domino´s Pizza Mexico | 154 | 151 | 3 | 2.0% |
| **Total Sub-Franchisees** | **154** | **151** | **3** | **2.0%** |
| **TOTAL STORES** | **989** | **865** | **124** | **14.3%** |

| Financial Ratios | 2007 | 2006 | Change |
|---|---|---|---|
| EBITDA/Interests paid | 24.4 x | 21.0 x | N/A |
| Net debt/EBITDA | 0.72 x | 0.25 x | N/A |
| Total liabilities/Stockholders' equity | 0.69 x | 0.49 x | N/A |
| ROIC[3] | 14.9% | 9.6% | 530 bps |
| ROE[4] | 16.5% | 9.1% | 740 bps |

| Stock Ratios | 2007 | 2006 | Change |
|---|---|---|---|
| Book value per share[6] | $ 4.88 | $ 4.26 | 14.6% |
| EPS[6] | $ 0.7690 | $ 0.3753 | 104.9% |
| EV[5]/EBITDA | 9.1 x | 9.4 x | N/A |
| Shares outstanding (millions)[6] | 618.8 | 623.3 | (0.72)% |
| Float | 37.1% | 36.0% | 110 bps |
| Stock price[6] | $ 15.30 | $ 14.72 | 3.9% |

(3) ROIC is defined as operating income after taxes divided by operating investment, net (total assets – cash and temporary investments – non-interest bearing liabilities).
(4) ROE is defined as net income divided by stockholders' equity.
(5) EV is defined as market value plus net debt plus minority interest, and considers the price per share at the closing of each quarter.
(6) To make information comparable, the number of shares of 2006 has been adjusted based on the 4 to 1 split carried out in 2007.
(7) Associate Stores refers to the stores that are recognized under the equity participation method.



# Audit Committee Report

In compliance with the provisions of Articles 42 and 43 of Mexico's new Securities Market Law and the Audit Committee Regulation, I hereby inform you of the activities we carried out during the year ended December 31, 2007. While performing our work, we have kept in mind the recommendations established in the Code of Best Corporate Practices. We got together at least once every quarter and followed a work schedule to perform the activities described below.

**I. Internal Control**

We made sure that Management, while complying with its internal control responsibilities, had established general guidelines and the processes needed to apply and comply with such guidelines. Additionally, we followed up on the related comments and observations made by the External and Internal Auditors in the performance of their work.

**II. External Audit**

We recommended to the Board of Directors the engagement of the Group's and its subsidiaries' external auditors. In this regard, we verified their independence and the compliance with the personnel turnover requirements established by law. Jointly, we analyzed with them their focus and work schedule, as well as their coordination with the Internal Audit Department.

We constantly and directly stayed in touch to be informed of the progress they were making in their work, of any observations they might have and to take note of their comments on their revision of the quarterly and annual financial statements. We were promptly informed of their conclusions and reports on the annual financial statements.

We authorized the fees paid to the external auditors for their auditing services and other services that are allowed, making sure that they did not interfere with their independence with respect to the company.

While taking into account Management's viewpoints, we evaluated its services corresponding to last year.

**III. Internal Audit**

With the purpose of maintaining its independence and objectivity, the Internal Audit Department functionally reports to the Audit Committee. Accordingly:

1. We revised and approved in a timely manner its schedule and annual activity budget.
2. We received periodical reports on the progress of the approved work schedule, any changes they might have had as well as the causes that brought on such changes.
3. We followed up on the observations and suggestions that they developed, as well as their timely implementation.

**IV. Financial Information, Accounting Policies and Reports Delivered to Third Parties**

We revised the quarterly and annual financial statements of the company with the persons in charge of preparing them, and recommended to the Board of Directors their approval and authorization to be published. As part of this process, we took into account the opinion and observations of the external auditors.

Upon issuing our opinion on the financial statements, we made sure that the criteria, and accounting and information policies used by Management to prepare the financial information were adequate and sufficient, and that they were applied consistent with the previous fiscal year. As a result, the information presented by Management reasonably reflects the financial situation, operating results and changes in the company's financial situation for the year ended December 31, 2007.

Our review also included the quarterly reports that are prepared by Management and presented to the stockholders and public in general, as well as any other financial information required by existing regulations. We made sure that such information was prepared based on the same accounting criteria that are used to prepare the annual information. To conclude, we recommended to the Board that the publication of this information be authorized.

V. **Compliance with Regulations, Legal Aspects and Contingencies**
We confirmed the existence and reliability of the controls established by the company to ensure compliance with the different legal provisions it is subject to, and made sure that these provisions were properly disclosed in the financial information.

We periodically revised the company's tax, legal and labor contingencies and supervised the effectiveness of the procedure that was established to identify and follow up on such contingencies, as well as their proper disclosure and recording.

VI. **Code of Conduct**
With the support of the Internal Audit Department, we made sure that the personnel was complying with the Code of Conduct in effect in the Group, and that the corresponding sanctions were being applied in cases in which breaches were found.

VII. **Administrative Issues**
We conducted the Committee's regular meetings with Management to be informed of the company's performance as well as of the relevant and unusual activities and events.

We also met with the external and internal auditors, without the presence of Management members, to comment on the development of their work and any limitations they might have had, as well as to facilitate any private communication they might want to have with the Committee.

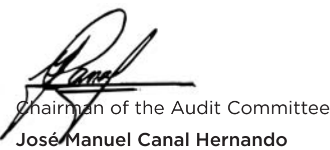
When deemed advisable, we requested the support and opinion of independent experts. Likewise, no significant possible non-compliances with operating policies, the internal control system and the accounting recording policies came to our knowledge.

We held executive meetings with the exclusive participation of the Committee members, and during such meetings agreements and recommendations for Management were established.

The Chairman of the Audit Committee reported to the Board of Directors on a quarterly basis the activities that were carried out.

The work we performed was duly documented in minutes that were prepared after each meeting, and which were revised and approved in a timely manner by the members of the Committee.

Sincerely,



Chairman of the Audit Committee
**José Manuel Canal Hernando**

February 18, 2008

# Corporate Practices Committee Report

February 19, 2008

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

In compliance with Articles 42 and 43 of Mexico's new Securities Market Law, and on behalf of the Corporate Governance Committee, I am pleased to present you with my report on the activities we carried out during the year ended December 31, 2007. While performing our work, we have kept in mind the recommendations contained in the Code of Best Corporate Practices.

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

1. During this period, we did not receive any request for exemption in accordance with the provisions of Article 28, paragraph III, section f) of the new Securities Market Law. It was therefore not necessary for us to make any recommendation in this regard.

2. For the first time we revised the Related Parties Operations Report, as a result of which we asked Management to present this report to us on a quarterly basis, following a methodology and an order that will allow us to ensure the transparency of this type of operations as they occur. The report shall at all times include the approval of the Internal Audit Department and, when necessary depending on the pre-established methodology, the intervention of a third party backing the market prices. As we received the reports prepared in accordance with this methodology, the pertinent recommendations were made.

3. Twice a year we revised the 2007 Performance Evaluation of relevant executives, as well as Management's proposal to pay their variable compensation depending on this same evaluation. In both cases we issued the proper recommendations.

4. We analyzed a proposal to grant the "2007 Deferred Bonus Plan" for up to a maximum amount of four months' salary, depending on the personal evaluation of all the participants, in view of the fact that the 2007 financial results were as expected in spite of the share price during this fiscal year not having performed as well as was forecasted. We suggested authorizing this proposal, subject to the result of the judicial process involving the subject of 0% Value Added Tax on the sale of food items. We were likewise asked to review the policies so that the Plan that was designed to align the company's results with the executives' compensation is not affected by events that may not be directly in correlation with performance.

5. On a quarterly basis, we were presented with the Control Board that allowed us to follow up on the strategic objectives. Additionally, we performed a first review of the 2008-2012 Strategic Plan, which was prepared as per the procedure established in the "Alsea Model" project. The complete analysis was presented at the Board of Directors' Meeting of December 13, 2007, and the Board asked for a Strategic Planning meeting to be held in April of 2008.

6. On a quarterly basis, we followed up on the progress made in the "Alsea Model" Processes Project.

7. We established the general premises to prepare the 2008 budget. The 2008 budgets of each of Alsea's divisions were revised in order to validate them and be able to make a recommendation to the Board of Directors. The budget and all its components were approved by the Board of Directors in its meeting held January 9, 2008.

8. We revised the CEO's report with the changes vs. budget for each quarter of 2007 and the entire fiscal year 2007, with the effects of each of Alsea's companies, in order to validate them and be aware of the main variations before presenting them to the Board of Directors. In all cases we recommended the authorization of such reports and of the financial reports.

9. All of the acquisition initiatives that were presented to us by Management were evaluated; during this period the acquisition of seven Domino's Pizza units of the "Dopisin" subfranchisee in the state of Sinaloa was authorized. In this case, the corresponding budget was revised and added.

10. We recommended the authorization of the dividend payment as per the established policy, i.e. 30% of the 2007 net income. On this occasion we suggested that the type of payment be optional, that is to say either shares or money, in view of the attractive share price in the Securities Market as well as the cash flow analysis for 2008.

11. The Trading Plan results were presented quarterly; thanks to these results Alsea is now a part of the Mexican Stock Exchange Index. We recommended that a special recognition be given to Management, when the time is right, specifically for its performance, management and results obtained in all the activities related to the Training Plan that was implemented.

12. Management presented us with the stock market indicators goals it suggests for the four quarters of 2008, which we presented to the Board of Directors and which we suggested be accepted as indicative, subject to review, and adjusted quarterly—as the case may be—during fiscal year 2008.

13. We were presented with the restatement of the Shareholder's Cost applied at the end of each quarter of 2007, using the methodology authorized by the Board of Directors, and we suggested that a rate of 16.5% be used at the end of the period.

14. On a quarterly basis we were presented with a summary of the risk management operations through "Foreign Exchange Forwards" (MXN/USD) carried out during the year. These operations have been conducted as authorized, i.e. in alignment with the objective of covering the foreign exchange risk of the operation in accordance with the authorized budget.

Lastly, I would like to mention that as part of the activities we have carried out, including the preparation of this report, we have at all times listened to and taken into account the viewpoint of all the relevant senior managers, and no significant differences of opinion existed.

Sincerely,

Chairman of the Corporate Practices Committee
**Salvador Cerón Aguilar**



# Independent Auditors' Report

(Translation from original issued in Spanish)

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

(Thousands of Mexican pesos)

We have examined the accompanying consolidated balance sheets of Alsea, S. A. B. de C. V. and subsidiaries as of December 31, 2007 and 2006 and the related consolidated statements of income, of changes in stockholders' equity and of 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 auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are prepared in accordance with Mexican Financial Reporting Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the 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 17(f) to the consolidated financial statements, in 2007, a subsidiary company of Alsea filed an appeal to obtain compliance with the injunction sentence ("Amparo") related to Valued Added Tax, with no final resolution yet issued.

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 a charge of $253,085 to operating expenses and a credit to the deferred tax provision of $58,815 in income for 2006.

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, 2007 and 2006, 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.

**C.P. Javier Morales Ríos**

February 19, 2008.

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

# Consolidated Balance Sheets

December 31, 2007 and 2006

(Thousands of Mexican pesos of constant purchasing power of December 31, 2007)

| | | 2007 | 2006 |
|---|---|---|---|
| **Asset** | | | |
| Current assets | | | |
| Cash | $ | 209,327 | 244,262 |
| Accounts receivable: | | | |
| Clients less allowance for doubtful accounts of $4,456 in 2007 and $6,784 in 2006 | | 214,514 | 170,719 |
| Valued added tax and other recoverable taxes (note 17(f)) | | 594,897 | 197,116 |
| Other | | 95,410 | 39,798 |
| Inventories, net (note 5) | | 235,252 | 226,386 |
| Prepaid expenses | | 79,072 | 62,793 |
| Total current assets | | 1,428,472 | 941,074 |
| Investment in shares of associated companies (note 6) | | 22,874 | 3,515 |
| Equipment, leasehold improvements and property, net (note 7) | | 2,786,389 | 2,244,790 |
| Goodwill of subsidiary companies, net (note 8) | | 217,612 | 217,612 |
| Intangible assets, less accumulated amortization of $411,956 in 2007 and $354,858 in 2006 (note 9) | | 625,993 | 527,626 |
| Deferred income tax and long-term taxes on retained earnings (note 15) | | 214,381 | 89,037 |
| Intangible assets for labor obligations (note 14) | | 4,411 | 6,194 |
| Discontinued operations | | – | 10,618 |
| | $ | 5,300,132 | 4,040,466 |

See accompanying notes to the consolidated financial statements.

| | | 2007 | 2006 |
|---|---|---|---|
| **Liabilities and Stockholders' Equity** | | | |
| Short-term liabilities | | | |
| Current installments of long-term debt (note 10) | $ | 334,550 | 137,875 |
| Suppliers | | 487,560 | 429,084 |
| Associated companies (note 4) | | 42,790 | 16,596 |
| Accounts payable and accrued liabilities | | 47,799 | 51,738 |
| Accruals (note 11) | | 376,806 | 204,741 |
| Taxes payable and employees' statutory profit sharing | | 140,134 | 82,120 |
| Total short-term liabilities | | 1,429,639 | 922,154 |
| Long- term debt, excluding current installments (note 10) | | 698,900 | 359,401 |
| Other liabilities | | 15,656 | 17,663 |
| Labor obligations (note 14) | | 23,848 | 18,678 |
| Total liabilities | | 2,168,043 | 1,317,896 |
| **Stockholders' (note 16):** | | | |
| Majority stockholders' equity | | | |
| Capital stock | | 534,365 | 536,624 |
| Additional paid- in capital | | 1,090,334 | 1,090,334 |
| Retained earnings | | 1,226,657 | 906,062 |
| Reserve for repurchase of shares | | 140,739 | 118,738 |
| Cumulative translation effect from foreign entities | | 5,389 | 2,118 |
| Majority stockholders' equity | | 2,997,484 | 2,653,876 |
| Minority interest | | 134,605 | 68,694 |
| Total stockholders' equity | | 3,132,089 | 2,722,570 |
| Commitments and contingencies (note 17) | | | |
| | $ | 5,300,132 | 4,040,466 |

Mr. José Rivera Río Rocha
Chief Financial Officer

Mr. Alberto Torrado Martínez
Chief Executive Officer

Mr. Abel Barrera Fermín
Corporate Comptroller

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

# Consolidated Statements of Income

Years ended December 31, 2007 and 2006
(Thousands of Mexican pesos of constant purchasing power as of December 31, 2007)

| | | 2007 | 2006 |
|---|---|---|---|
| Net sales | $ | 7,047,270 | 6,026,444 |
| Cost of sales | | 2,362,069 | 2,066,515 |
| Gross profit | | 4,685,201 | 3,959,929 |
| Operating expenses | | 3,984,657 | 3,523,848 |
| Operating income | | 700,544 | 436,081 |
| Other expenses, net (note 13) | | (19,293) | (24,486) |
| Comprehensive financing result (note 12) | | (38,059) | (49,722) |
| Equity interest in associated companies (note 6) | | (2,653) | - |
| Income from continuing operations, before income taxes | | 640,539 | 361,873 |
| Income tax (note 15) | | 162,305 | 125,469 |
| Income before discontinued operations | | 478,234 | 236,404 |
| Income (loss) from discontinued operations, net (note 2(c)) | | 10,907 | (7,775) |
| Income before minority interest | | 489,141 | 228,629 |
| Minority interest | | 10,706 | 6,452 |
| Net income | $ | 478,435 | 222,177 |
| Net earnings per share (note 2(w)) | $ | 0.77 | 0.38 |

See accompanying notes to the consolidated financial statements.

Mr. José Rivera Río Rocha
Chief Financial Officer

Mr. Alberto Torrado Martínez
Chief Executive Officer

Mr. Abel Barrera Fermín
Corporate Comptroller



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

# Consolidated Statements of Changes in Financial Position

Years ended December 31, 2007 and 2006
(Thousands of Mexican pesos of constant purchasing power as of December 31, 2007)

| | | 2007 | | 2006 |
|---|---|---|---|---|
| **Operating activities:** | | | | |
| Income before minority interest | $ | 489,141 | $ | 228,629 |
| Add charges (deduct credits) to income not requiring (providing) funds: | | | | |
| Depreciation and amortization | | 449,111 | | 571,358 |
| Labor obligations | | 6,953 | | 4,833 |
| Equity interest in associated companies | | 2,653 | | – |
| Deferred income tax and employees' statutory profit sharing | | (125,344) | | (134,928) |
| Funds provided by operations | | 822,514 | | 669,892 |
| Net financing from (investing in) operating accounts: | | | | |
| Clients, net and prepaid expenses | | (115,690) | | 93,605 |
| Inventories | | (8,866) | | (61,858) |
| Associated companies | | 26,194 | | 26,903 |
| Suppliers, accounts payable, accrued liabilities and other accounts payable | | 222,829 | | 107,817 |
| Taxes payable and employees' statutory profit sharing | | (339,767) | | 113,201 |
| Funds (used in) provided by operating activities | | (215,300) | | 279,668 |
| **Financing activities:** | | | | |
| Increase in capital stock and minority interest, net | | 55,205 | | 727,689 |
| Repurchase of shares | | (70,258) | | 13,355 |
| Loans, net | | 536,174 | | (332,047) |
| Dividends declared | | (67,840) | | (167,677) |
| Funds provided by financing activities | | 453,281 | | 241,320 |
| **Investing activities:** | | | | |
| Acquisition of equipment, leasehold improvements and property | | (706,985) | | (368,363) |
| Acquisition of subsidiary and associated companies | | (9,624) | | (378,764) |
| Comulative translation effect from foreign entity | | 3,271 | | (4,727) |
| Intangible and other assets | | (382,092) | | (366,016) |
| Funds used in investing activities | | (1,095,430) | | (1,117,870) |
| (Decrease) increase in cash | | (34,935) | | 73,010 |
| Cash: | | | | |
| At beginning of year | | 244,262 | | 171,252 |
| At end of year | $ | 209,327 | | 244,262 |

See accompanying notes to the consolidated financial statements.

Mr. José Rivera Río Rocha
Chief Financial Officer

Mr. Alberto Torrado Martínez
Chief Executive Officer

Mr. Abel Barrera Fermín
Corporate Comptroller

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

# Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2007 and 2006

(Thousands of Mexican pesos of constant purchasing power as of December 31, 2007)

| | | | | Retained earnings | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Capital stock | Additional paid-in capital | Legal reserve | Retained earnings | Total | Stock repurchase reserve | Cumulative Translation effect from foreign entities | Total majority stockholders' equity | Minority interest | Total stockholders' equity |
| Balances as of December 31, 2005 | $ | 495,335 | 380,435 | 32,207 | 819,355 | 851,562 | 105,932 | 393 | 1,833,657 | 85,192 | 1,918,849 |
| Decrease in minority interest | | – | – | – | – | – | – | – | – | (22,950) | (22,950) |
| Increase in equity (note 16) | | 40,740 | 709,899 | – | – | – | – | – | 750,639 | – | 750,639 |
| Repurchase of shares (note 16) | | 549 | – | – | – | – | 12,806 | – | 13,355 | – | 13,355 |
| Appropriation to legal reserve | | – | – | 13,365 | (13,365) | – | – | – | – | – | – |
| Dividends declared ($0.29 per share) (note 16) | | – | – | – | (167,677) | (167,677) | – | – | (167,677) | – | (167,677) |
| Comprehensive income | | – | – | – | 222,177 | 222,177 | – | 1,725 | 223,902 | 6,452 | 230,354 |
| Balances as of December 31, 2006 | | 536,624 | 1,090,334 | 45,572 | 860,490 | 906,062 | 118,738 | 2,118 | 2,653,876 | 68,694 | 2,722,570 |
| Increase in minority interest | | – | – | – | – | – | – | – | – | 55,205 | 55,205 |
| Repurchase of shares (note 16) | | (2,259) | – | – | – | – | (67,999) | – | (70,258) | – | (70,258) |
| Appropriation to legal reserve | | – | – | 10,988 | (10,988) | – | – | – | – | – | – |
| Increase stock repurchase reserve (note 16) | | – | – | – | (90,000) | (90,000) | 90,000 | – | – | – | – |
| Dividends declared ($0.30 per share) (note 16) | | – | – | – | (67,840) | (67,840) | – | – | (67,840) | – | (67,840) |
| Comprehensive income | | – | – | – | 478,435 | 478,435 | – | 3,271 | 481,706 | 10,706 | 492,412 |
| **Balances as of December 31, 2007** | **$** | **534,365** | **1,090,334** | **56,560** | **1,170,097** | **1,226,657** | **140,739** | **5,389** | **2,997,484** | **134,605** | **3,132,089** |

See accompanying notes to the consolidated financial statements.

Mr. José Rivera Río Rocha
Chief Financial Officer

Mr. Alberto Torrado Martínez
Chief Executive Officer

Mr. Abel Barrera Fermín
Corporate Comptroller

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

# Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(Thousands of constant Mexican pesos as of December 31, 2007)

(Translation from original issued in Spanish)

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

On February 19, 2008, the Board of Directors authorized the issuance of the accompanying consolidated financial statements and notes thereto. In accordance with the General Corporations Law and the Company's bylaws, the Stockholders are empowered to modify the financial statements after their issuance. The accompanying financial statements will be submitted for approval at the following Stockholders' Meeting.

## 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 casual restaurants. In Mexico, Alsea operates Domino's Pizza, Starbucks Coffee, Burger King, Popeyes and Chili's Grill & Bar. The operation of its multi-units is supported by its Shared Service Centre, which includes a supply chain through its distribution division (DIA), real estate and development services, as well as administrative services such as finance, human resources and technology. Since 2006, the Company operates Starbucks Coffee in Brazil in association with Café Sereia do Brasil Participações, S. A. and Starbucks Coffee International. In Chile and Argentina, Alsea operates Burger King and as from 2007, Starbucks Coffee in those countries in association with Starbucks Coffee International.

Significant transactions–

a) **Share split and Primary public offering –** In February 2007, having carried out the necessary procedures and updated its share registration at the National Securities Registry, Alsea's four-to-one share split became effective, without modifying the capital stock.

In April 2006, Alsea increased its capital stock, issuing 65,028,800 Class II common shares. The net resources provided by this primary public offering increased the stockholders' equity, as mentioned in note 16.

b) **Acquisitions –** Continuing with the market positioning of fast-food and casual restaurants, Alsea mainly carried out the following acquisitions during 2006:

- In May 2006, Alsea reached a 100% interest in the equity of Gastrosur S. A de C. V (Gastrosur), by acquiring 40% of the minority interest shares. Gastrosur has exclusive rights to the use of the Chili's Grill & Bar trademark in some Mexican states. (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). On December 3, 2007, Restaurants Sudamericana, L.C. was liquidated, transferring almost its entire stockholding to its holding company (Operadora Internacional Alsea, S.A de C.V.), a subsidiary of Alsea.

Below is a condensed balance sheet at December 31, 2006 of the businesses acquired:

**Condensed balance sheet**

| | | |
|---|---|---|
| Current assets | $ | 90,975 |
| Store equipment, leasehold improvements and property | | 182,459 |
| Franchisee rights | | 66,716 |
| Deferred income tax | | 20,079 |
| | $ | 360,229 |
| Short-term liabilities | $ | 70,629 |
| Long-term liabilities | | 41,940 |
| Majority stockholders' equity | | 247,660 |
| | $ | 360,229 |

The business acquisitions were recognized under the purchase method. The cost of entities acquired was determined based on the cash paid, with no contingent consideration at the date of each acquisition. Furthermore, the excess of the cost of the units acquired over net assets acquired and liabilities assumed 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, Chile and Argentina –** In October 2007, Alsea entered into a joint venture agreement to operate and develop the Starbucks Coffee trademark in Argentina and participate in the operation of Starbucks Coffee in Chile. In Chile, the Company entered into a joint venture agreement with Starbucks Coffee International, acquiring 18% of the shares of Starbucks Coffee Chile, S.A. (Starbucks Chile), with 21 stores in operation at the time of this agreement. While in Argentina, Alsea acquired 82% of Starbucks Coffee Argentina, L.L.C. (Starbucks Argentina) shares, operations are not to begin until 2008. These acquisitions went into effect on December 31, 2007, thus no balance sheet has been included for said acquired businesses.

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 Coffee International, by incorporating Starbucks Brasil Comércio de Cafés, Ltda. (Joint Venture Company), and beginning operations in November 2006.

d) **Merger –** In August 2007, Distribuidor Internacional de Alimentos, S.A. de C.V was merged into Distribuidora e Importadora Alsea, S.A. de C.V., with the latter as the surviving company.

## 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 2007, based on the Mexican National Consumer Price Index (NCPI) Published by Banco de México.

The Mexican Financial Reporting Standards Board (CINIF from its name in Spanish) issued the following statements, effective as from 2007, FRS B-3 "Statement of Income", modifying the general rules for presentation of the statement of income, FRS B-13 "Subsequent Events", which establishes the accounting treatment when such events should be recognized and when they should only be disclosed. FRS C-13 "Related Parties", establishing the minimum disclosure rules applicable to operations with related parties and FRS D-6 "Capitalization of Comprehensive Financing Results", establishing mandatory capitalization of the comprehensive financing result related to fixed asset acquisitions.

The aforementioned FRS had no important effect on the financial information shown, except as concerns FRS B-3, which modifies the general rules for presentation of the statement of income, eliminating special and extraordinary items, and requiring that employees' statutory profit sharing (ESPS) be recorder under other expenses and income, rather than in a row after income tax, and requiring that income, costs and expenses be classified as i) ordinary and ii) non ordinary. Consequently, in 2006, the ESPS was reclassified for comparative purposes.

Furthermore, FRS B-3 requires that ordinary costs and expenses be classified according to their function, nature, or a combination of both. Due to the fact that Alsea is a trade company, its ordinary costs and expenses are shown based on their function, which allows for knowing the related gross profit margin.

b) **Principles of consolidation –** The consolidated financial statements include the financial statements of Alsea, S. A. de C. V. and of the 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:

| | Shareholding percentage | | |
|---|---|---|---|
| | **2007** | 2006 | Activity |
| **Operating companies:** | | | |
| 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. | **99.99%** | 99.99% | Domino's Pizza, Burger King and Popeyes stores |
| Gastrosur, S. A. de C. V. | **99.99%** | 99.99% | Chili's Restaurants |
| Operadora Internacional Alsea, S. A. de C. V. | **99.99%** | 99.99% | Burger King and Starbucks Coffee stores in South America |
| Distribuidora e Importadora Alsea, S. A. de C. V. | **99.99%** | 99.99% | Food distribution |
| **Associated companies:** | | | |
| Starbucks Coffee Chile, S. A. | **18.00%** | – | Starbucks Coffee stores |
| Starbucks Brasil Comércio of Cafes, Ltda. | **11.06%** | 11.06% | Starbucks Coffee stores |
| Cool Cargo, S. A. de C. V. | **–** | 50.00% | Transportation services |
| De Libra, Ltda. | **–** | 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 –** In November 2007, Alsea sold its 50% ownership of Cool Cargo, S.A. de C.V, a company engaged in providing transportation services to Distribuidora e Importadora Alsea, S.A. de C. V. This operation generated a gain of $5,447.

In April 2007, the remaining 50% ownership of DeLibra, Ltda. was sold, which as from December 2006, was recognized as a discontinued operation. This operation generated a gain of $5,460.

In October 2006, Alsea sold its shares of Rio con Pasta, S.A. de C.V., a subsidiary engaged in operating the Spoleto trademark in Mexico.

The effects of the above operations were shown as discontinued operations in the Statement of Income.

Due to the above, the equity in income of these associated companies recorded in 2006 was reclassified as discontinued operations.

d) **Currency translations of foreign subsidiaries –** The financial statements of foreign subsidiaries operating on an independent basis (located in Argentina, Chile and Brazil, and representing 9% and 5% of consolidated net sales in 2007 and 2006, respectively) were consolidated applying the same accounting policies, and have been adjusted applying the rate of inflation of the country in which they operate and are stated in local currency at the 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 effects of translation are shown under stockholders' equity.

e) **Presentation of prior year's figures –** The figures of prior years' financial statements are expressed in pesos of a constant purchasing power, using factors derived from the NCPI. The factors used in 2007 and 2006 were 1.0375 and 1.0405, respectively.

f) **Cash –** Cash includes deposits in checking accounts, foreign currency and investments 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 the comprehensive financing result.

g) **Inventories and the cost of sales –** Valued by the last-in-first-out method; therefore the replacement cost of inventories is restated to the cost of the last purchase. Inventory values so 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 records the necessary allowances for inventory impairment arising from inventory damage, obsolescence, slow-movement 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 their acquisition cost and adjusted for inflation by applying NCPI factors. Depreciation of 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% |
| Leasehold improvements | 10% to 20% |
| Transportation equipment | 25% |
| Computer equipment | 30% |
| Production equipment | 10% to 20% |
| Office furniture and equipment | 10% |

i) **Goodwill of subsidiary 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 the 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 (Mexico) (*) | 2024 |
| Popeyes Chicken & Seafood | 2042 |
| Chili's Grill & Bar | 2015 |

(*) Each of this trademark's stores is valid for a 20-year term, as from the date on which each point of sale begins operations.

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 areas, and are reported at adjusted values using NCPI factors. Amortization over the carrying amount is computed by the straight-line method over one year, from the date on which each point of sale begins 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 recovery value represents the present value of the cash flows related to the cash 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 realization 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), asset tax (AT), and employees' statutory profit sharing (ESPS) –** Provisions for IT and ESPS are charged to income 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 (AT). 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 –** Post employment compensation (seniority premiums and severance) due to reasons other than restructuring, to which employees are entitled in accordance with the law, are charged to income for the year in which such services are rendered, based on actuarial computations using the projected unit credit method (see note 14).

Other compensation, to which employees are entitled, are charged to income for the year in which they are paid.

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 –** This premium represents the excess of the payments for subscribed shares over their par value, less expenses related to the placement of shares.

q) **Cumulative effect of deferred income tax –** Represents the effect of recognition of cumulative deferred taxes as of the date on which the related accounting standard was adopted, shown under retained earnings.

r) **Revenue recognition –** The Company recognizes revenue from the sale of food when the products are delivered to the customers; service revenue is recognized as the services are rendered. The Company provides reserves for returns and discounts, which are deducted from sales.

s) **Derivative financial instruments –** Alsea uses derivative financial instruments (forwards and swaps) to reduce the risk of adverse fluctuations in exchange rates and interests. These derivatives are valued at fair value and require that the Company exchange cash flows at their underlying value on given future dates.

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

At December 31, 2007, the company had contracted the following financial instruments

| Institution | Thousands of dollars | Average exchange rate at realization date | Maturing in |
|---|---|---|---|
| Merrill Lynch | 49,200 | $ 11.04 | 2008 |
| Santander | 9,000 | 10.98 | 2008 |

During 2007 and 2006, the Company recorded a charge (credit) in income of $1.871 and ($854), respectively, corresponding to fluctuations in exchange and interest rates from the date on which transactions were entered into to the settlement date.

t) **Comprehensive financing result (CFR) –** The CFR includes interest income and expenses, foreign exchange gains and losses, the effect of derivate financial instruments and monetary 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, applying inflation factors at year end. The resulting amount represents the monetary gain or loss for the year arising from inflation, applied to income for the year.

u) **Use of estimates –** Preparation of the financial statements requires that management make 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 –** Significant contingency-related liabilities or losses are recorded when a liability has likely been incurred and there are reasonable elements for their quantification. 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 shares in circulation 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 –** During the last quarter of 2007, the Mexican Financial Reporting Standards Board (CINIF, from its name in Spanish) issued a number of Financial Reporting Standards (FRS) and Interpretations thereto (IFRS), in effect as from January 1, 2008. It is estimated that these FRS and IFRS will not have a significant effect on the Company's financial information.

**FRS B-2 "Cash flow statement".** This FRS sets forth the provisions for the presentation, the structure and the preparation of cash flow statements, as per the provisions of the FRS B-10. FRS B-2 supersedes Statement B-12, "Statement of changes in the financial position", and also requires showing gross amount of collections and payments; requiring, in very specific cases, that net cash flow movements be shown, as well as the items comprising the cash balance.

**FRS B-10 "Inflation effects".** This FRS sets forth the provisions for recognition of the effects of inflation under an inflationary environment in the country. This FRS incorporates, among other, the following changes: i) the option to choose the use of the NCPI or the value of Investments Units, ii) eliminates the use of the method of valuation of assets of foreign origin, iii) that the initial accumulated gain or loss from holding nonmonetary assets and the initial accumulated gain or loss from monetary position be reclassified to retained earnings or maintained in stockholders' equity, only as concerns the affects derived from items which have not been charged or credited to the income statement.

**FRS B-15 "Translation of foreign currency".** This FRS supersedes current Statement B-15 and establishes, among other, the elimination of the classification of foreign integrated operation and foreign entity. It also establishes the procedures to translate financial information from a foreign operation such as: i) from the posting currency to the functional currency; and ii) from the functional currency to the reporting currency, and also allows an entity to express its financial statements in a currency other than its functional currency.

**FRS D-3 "Employee benefits".** This FRS supersedes current Standard D-3. The most important changes are the reduction to a maximum of a five-year period to amortize prior years' items, the effects of the salary growth in the determination of Defined Benefit Obligations (formerly known as Projected Benefit Obligations), the elimination of the accounting treatment for the additional liability and its corresponding counter entries, such as intangible assets and separate equity components.

**FRS D-4 "Income tax".** This FRS requires recognition of asset tax as a tax liability and therefore, as a deferred income tax asset. This standard eliminates the term "permanent difference" and also requires the reclassification to retained earnings of the initial effects of the deferred income tax recorded in equity, unless the timing differences which gave rise to them have not been realized.

## 3. Foreign currency exposure–

Monetary assets and liabilities denominated in U.S. dollars (dollars) as of December 31, 2007 and 2006 were as follows:

| | Thousands of dollars | |
|---|---|---|
| | **2007** | 2006 |
| Assets | **4,594** | 10,471 |
| Liabilities | **17,331** | 15,622 |
| Net liability position | **(12,737)** | (5,151) |

The exchange rate of the peso to the dollar, as of December 31, 2007 and 2006, was $10.86 and $10.87, respectively. At February 19, 2008, the exchange rate was $10.73.

As of December 31, 2007 and 2006, the Company's position on 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, 2007 and 2006:

| | Thousands of dollars | |
|---|---|---|
| | **2007** | 2006 |
| Food purchases | 65,378 | 63,313 |
| Equipment purchases | 6,955 | 3,118 |
| Royalties | 22,759 | 17,843 |

## 4. Balances and transactions with associated companies –

Accounts payable to associated companies as of December 31, 2007 and 2006 as follows:

| | | **2007** | 2006 |
|---|---|---|---|
| Accounts payable: | | | |
| Starbucks Coffee International (*) | $ | 42,790 | 16,596 |

(*) This balance is due mainly to inventories and fixed asset acquisitions, and payments for the rights to open "Starbucks Coffee" stores.

Freight services contracted from Cool Cargo amounted to $15,542 in 2007 and $15,526 in 2006 (see note 2(c)).

## 5. Inventories–

Include the following:

| | | **2007** | 2006 |
|---|---|---|---|
| Food and beverages | $ | 218,068 | 213,190 |
| Containers and packaging | | 10,069 | 10,758 |
| Other | | 10,029 | 7,607 |
| Less allowance for obsolete items | | (2,914) | (5,169) |
| | $ | 235,252 | 226,386 |

## 6. Investment in shares of associated companies–

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

| | | Equity | | Equity in income for 2007 |
|---|---|---|---|---|
| | | **2007** | 2006 | **2007** |
| Starbucks Brasil Comércio de Cafés, Ltda. | $ | 11,182 | 3,515 | (2,578) |
| Starbucks Coffee Chile, S. A. | | 11,692 | – | (75) |
| | $ | 22,874 | 3,515 | (2,653) |

## 7. Equipment, leasehold improvements and property–

Include the following:

| | | **2007** | 2006 |
|---|---|---|---|
| Buildings | $ | 157,059 | 159,394 |
| Store equipment | | 1,391,934 | 1,156,082 |
| Leasehold improvements | | 1,689,738 | 1,253,244 |
| Transportation equipment | | 120,300 | 111,384 |
| Computer equipment | | 172,814 | 185,987 |
| Production equipment | | 163,243 | 151,831 |
| Office furniture and equipment | | 57,395 | 46,311 |
| | | 3,752,483 | 3,064,233 |
| Less accumulated depreciation | | (1,527,657) | (1,293,556) |
| | | 2,224,826 | 1,770,677 |
| Land | | 99,442 | 74,022 |
| Constructions in progress (*) | | 462,121 | 400,091 |
| | $ | 2,786,389 | 2,244,790 |

(*) Relates primarily to the opening of stores and restaurants, to be completed in 2008.

As a consequence of the low profitability of the Popeyes' trademark, at December 31, 2007 Alsea recognized an allowance for impairment of long-lived assets used in Popeyes' operations. This allowance gave rise to other expenses in the amount of $23,302 and an increase of $6,525 to the deferred income tax asset. Once this effect was recognized, fixed assets were shown at their fair value, which was determined applying an appropriate discount rate, expected to be generated as a result of the use of these assets.

Alsea kicked off a program to sell non-strategic assets, the purpose of which is to increase the company's profitability by investing the resulting resources obtained in the expansion plan of its portfolio's different trademarks both in Mexico and in South America. As part of this program, the Company concluded the sale of Alsea's former main offices, as well as the definite sale and long-term lease agreements of the new corporate offices. These transactions were carried out to market value, which generated again of $5,613 recorded in other expenses.

In accordance with management's new market strategy, which involves image renewal of the trademarks operated by Alsea, 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 a charge of $253,085 to operating expenses and a credit to the deferred tax provision of $58,815 in income for 2006.

## 8. Goodwill of subsidiary companies–

As of December 31, 2007 and 2006, the goodwill of subsidiary companies is comprised as follows:

| | | **2007** | 2006 |
|---|---|---|---|
| Alsea, S. A. B. de C. V. | $ | 124,912 | 124,912 |
| West Alimentos, S. A. de C. V. | | 90,061 | 90,061 |
| Operadora D. P. de México, S. A. de C. V. | | 19,619 | 19,619 |
| | | 234,592 | 234,592 |
| Less accumulated amortization | | (16,980) | (16,980) |
| | $ | 217,612 | 217,612 |

## 9. Intangible assets–

Intangible assets as of December 31, 2007 and 2006 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, 2006 | $ | 516,858 | 150,240 | 139,902 | 75,484 | 882,484 |
| Acquisitions | | 28,289 | 39,656 | 49,849 | 37,671 | 155,465 |
| Less accumulated amortization | | (222,789) | (118,726) | (23,567) | (46,874) | (411,956) |
| Balances as of December 31, 2007 | $ | 322,358 | 71,170 | 166,184 | 66,281 | 625,993 |

During 2007, Alsea increased its investment in franchisee rights mainly due to the acquisition of Domino's Pizza stores in Mexico and Starbucks Coffee in Chile and to the rights to open "Starbucks Coffee" stores in Mexico. Pre-operating expenses are directly related to the opening of new points of sale.

## 10. Long-term debt–

Unsecured long-term debts in Mexican pesos are as follows:

| | Maturing in | Average annual interest rate | | 2007 | 2006 |
|---|---|---|---|---|---|
| Unsecured loans | 2007 - 2012 | 6.50% - 8.05% | $ | **1,033,450** | 497,276 |
| Less current installments | | | | **334,550** | 137,875 |
| Long-term debt | | | $ | **698,900** | 359,401 |

Maturities of long-term debt as of December 31, 2007 are as follows:

| Year | | Amount |
|---|---|---|
| 2009 | $ | 209,050 |
| 2010 | | 224,050 |
| 2011 | | 167,800 |
| 2012 | | 98,000 |
| | $ | 698,900 |

Bank loans establish certain obligations to do and not to do, the most significant of which refer to compliance with certain financial ratios. As of the date of the financial statements, all such obligations had been complied with.

## 11. Accruals–

Accruals are comprised as follows:

| | | Salaries and other employee benefits | Other | Total |
|---|---|---|---|---|
| Balances as of December 31, 2006 | $ | 73,309 | 131,432 | 204,741 |
| Increases charged to operations | | 30,719 | 274,529 | 305,248 |
| Payments | | (21,457) | (111,726) | (133,183) |
| Balances as of December 31, 2007 | $ | 82,571 | 294,235 | 376,806 |

## 12. Comprehensive financing result–

This item is comprised as follows:

| | | 2007 | 2006 |
|---|---|---|---|
| Interest expenses, net | $ | **(47,419)** | (47,982) |
| Foreign exchange gain (loss), net | | **5,101** | (2,268) |
| Gain on monetary position | | **4,259** | 528 |
| | $ | **(38,059)** | (49,722) |

## 13. Other expenses, net –

| | | 2007 | 2006 |
|---|---|---|---|
| Allowance for impairment of long-lived assets | $ | **(23,302)** | – |
| Gain (loss) on fixed asset disposals | | **7,728** | (16,985) |
| ESPS | | **(3,899)** | (2,876) |
| Other income (expense), net | | **180** | (4,625) |
| | $ | **(19,293)** | (24,486) |

## 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 | |
|---|---|---|---|---|---|---|---|
| | | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Accumulated benefit obligations | $ | **4,187** | 3,361 | **20,147** | 15,731 | **24,334** | 19,092 |
| Transition obligation and unamortized items | | **477** | 300 | **(5,374)** | (6,908) | **(4,897)** | (6,608) |
| Projected benefit obligation | | **4,664** | 3,661 | **14,773** | 8,823 | **19,437** | 12,484 |
| Additional liability | | **82** | 144 | **4,329** | 6,050 | **4,411** | 6,194 |
| Accrued liability | $ | **4,746** | 3,805 | **19,102** | 14,873 | **23,848** | 18,678 |

The net cost for the period is comprised as follows:

| | | Seniority premiums | | Severance | | Total | |
|---|---|---|---|---|---|---|---|
| | | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Labor cost | $ | **902** | 755 | **8,969** | 9,291 | **9,871** | 10,046 |
| Interest cost | | **135** | 107 | **550** | 410 | **685** | 517 |
| Amortization of transitory obligation | | **(83)** | (102) | **917** | 1,089 | **834** | 987 |
| Net cost for the period | $ | **954** | 760 | **10,436** | 10,790 | **11,390** | 11,550 |

The main assumptions used in the determination of the net cost for the period of said plans were as follows:

| | Seniority premiums 2007 | Seniority premiums 2006 | Severance 2007 | Severance 2006 |
|---|---|---|---|---|
| Discount rate | **4.5%** | 4.5% | **4.5%** | 4.5% |
| Salary increase rate | **0.5%** | 0.5% | | |
| Amortization period of average transitory obligation (years) | **7.3** | 7.1 | **6.1** | 7.2 |

## 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, 2007 and 2006, the Company determined a net consolidated taxable income of $601,065 and $730,047, respectively.

The tax expense attributable to income before IT differed from the amount that would have been computed by applying the Mexican rate of 28% and 29% in 2007 and 2006, respectively, as a result of the following items:

| | 2007 | 2006 |
|---|---|---|
| Expected IT rate | 28% | 29% |
| Non-deductible expenses | 2% | 2% |
| Effects of inflation, net | 1% | 1% |
| Effects of enacted changes in tax laws and rates | 1% | 1% |
| Valuation allowance changes | (8%) | – |
| Other, net | 1% | 1% |
| Effective consolidated IT rate | 25% | 34% |

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, 2007 and 2006, are shown below:

| | | ISR | |
|---|---|---|---|
| | | 2007 | 2006 |
| Deferred tax (assets) liabilities: | | | |
| Allowance for doubtful accounts | $ | (1,248) | (1,899) |
| Accruals | | (118,827) | (58,032) |
| Advance payments from clients | | (64) | (1,305) |
| Net operating tax loss carryforward, net of the valuation allowance | | (63,124) | (55,484) |
| Recoverable AT | | (43,536) | (18,529) |
| Inventories | | – | 22,142 |
| Equipment, leasehold improvements and property | | (71,524) | (67,884) |
| Other assets | | 79,830 | 83,641 |
| Prepaid expenses | | 3,646 | 7,829 |
| Net deferred tax asset | | (214,847) | (89,521) |
| Income tax payable on retained earnings | | 466 | 484 |
| Asset recognized in the balance sheets | $ | (214,381) | (89,037) |

The valuation allowance amounted to $161,009 and $115,172 in 2007 and 2006, respectively.

IT charged to income is analyzed as follow:

| | | 2007 | 2006 |
|---|---|---|---|
| Current | $ | 287,649 | 239,124 |
| Deferred | | (125,344) | (113,655) |
| Total | $ | 162,305 | 125,469 |

Alsea and some of its subsidiaries show unamortized tax losses of $224,133, which, restated for inflation, may be carried forward to offset taxable income in the ten following years. The Company will generate enough taxable income to achieve the deferred income tax benefits and amortize the tax losses before their expiration. If current conditions change and not enough taxable income is generated through the operation; the valuation allowance will be increased.

The amendments to the AT Law, in effect as from January 1, 2007, provide a reduction in the tax rate from 1.8% to 1.25%, without deducting liabilities from the AT tax base.

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, 2007 and 2006, the Company recognized a decrease in net deferred taxes of $2,085 and $2,537, respectively, which was charged to income for each year.

Published on October 1, 2007, the tax amendments in effect as from January 1, 2008, repeal asset tax and set forth the new Flat Tax Law (IETU from its initials in Spanish) and the Tax on Cash Deposits Law (IDE from its initials in Spanish), the latter of which is to go into effect on July 1, 2008. Following are the main changes that could have an impact on the presentation of the Company's financial information:

Flat Tax (IETU) The IETU tax base is determined according to cash flows and certain restrictions on authorized deductions. The IETU rate is 17.5% (16.5% in 2008 and 17% in 2009). Taxpayers are required to pay the greater of IETU and income tax, considering the IETU as a maximum tax against which income tax actually paid in the same period can be credited. As a result of the elimination of asset tax, a procedure is established for the determination of asset tax paid up to December 2007 to be recovered as from 2008. In general terms, recovery of approximately 65% asset tax is allowed. As a result, at the closing of the 2007 period, 35% of the asset tax included in the calculation of deferred taxes was cancelled.

In accordance with IFRS 8 issued by the CINIF in December 2007 regarding the effects of the IETU, management prepared financial and tax projections, determining that in the future, the Company will be subject to payment of income tax, thus only recording the effect of deferred IETU for two subsidiaries at the year-end close.

Tax on Cash Deposits (IDE). This tax is determined at the rate of 2% on cash deposits made by both individuals and entities in bank accounts, when the accumulated amount per month exceeds $25. IDE is creditable against own income tax payable and/or withheld from third parties. The remainder, if any, can be offset against other federal taxes. Refund of favorable balances can be requested.

Value Added Tax (VAT). The last paragraph of section I of article 2-A of the Value Added Tax Law was modified to establish the application of the 10% and 15% rates, as applicable, on the sale of food prepared for consumption at the location where it is sold.

## 16. Stockholders' equity-

The principal characteristics of stockholders' equity are described below:

a) **Structure of capital stock –** In November 2006, the stockholders agreed to carry out a share restructuring, dividing the minimum fixed (Class I) and variable (Class II) portions of the capital stock. The Company executed a four-to-one split, without modifying the capital stock. This split went into effect in February 2007, when registration of Alsea shares was updated at the National Securities Registry.

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, 2005 | 546,291,528 | $ | 495,332 | 380,394 |
| April 2006, primary public offering increased the stockholders' equity. Related expenses of $32,955 were offset in the additional paid-in capital | 65,028,800 | | 34,897 | 673,953 |
| April 2006, stock option plan for executives | 5,886,524 | | 3,144 | 1,271 |
| May 2006, acquisition of minority interest of Gastrosur | 5,042,344 | | 2,702 | 34,716 |
| Shares repurchased in 2006 | 1,012,000 | | 549 | – |
| Balance as of December 31, 2006 | 623,261,196 | | 536,624 | 1,090,334 |
| Shares repurchased in 2007 | (4,448,400) | | (2,259) | – |
| Balances of December 31, 2007 | 618,812,796 | $ | 534,365 | 1,090,334 |

In April 2007 and 2006, dividends were declared in the amount of $67,840 and $167,677, 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 shall, at no time, exceed ten times the minimum capital stock with no withdrawal rights.

As of December 31, 2007, the subscribed fixed and variable capital stock, represented by 618,812,796 common, registered shares with no par value, are as follows:

| Number of shares | Description | Amount |
|---|---|---|
| 489,157,480 | Fixed capital stock | $ 244,578 |
| 134,103,716 | Variable capital stock | 67,087 |
| (4,448,400) | Repurchased shares (nominal value) | (2,259) |
| 618,812,796 | Nominal capital stock | 309,406 |
| | Increase for inflation adjustments (note 2(o)) | 224,959 |
| | Capital stock as of December 31, 2007 | $ 534,365 |

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 2007 and 2006, the Company repurchased 4,448,400 and 1,012,000 shares amounting to ($70,258) and $13,355, respectively.

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

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 ($5.70) and the fair value of the option ($8.48) payable in shares. At the General Stockholders' Meeting, the Board agreed to assign 5,886,524 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 ($1.05 per share) and the remaining 80% can only be exercised at the end of the plan.

For the years ended December 31, of 2007 and 2006, Alsea modified the stock option plan for executives, replacing it with a deferred compensation paid in cash.

As of December 31, 2007, the total liability regarding deferred compensation for the years ended December 31, 2007 and 2006 and the amount of stock option plan totaling $26,715, $20,837 and $7,719, respectively, were recorded under provisions.

c) **Restrictions on stockholders' equity –**

I) Five percent of net income for the year must be appropriated to the legal reserve, until it reaches one-fifth of the Company's capital stock. As of December 31, 2007, the legal reserve amounts to $56,560

II) Dividends paid out of retained earnings are 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 year in which it is paid or the two subsequent years.

## 17. Commitments and contingencies–

**Commitments:**

a) The Company leases the facilities that house its stores and distribution centers, as well as certain equipment under limited-term lease agreements. Rental expenses amounted to $464,862 and $340,566 in 2007 and 2006, respectively. Rental expenses for 2008 are estimated to amount to $ 603,000. The aforementioned expenses were established at fixed prices and increase annually based on the NCPI.

b) The Company has commitments under the agreements supporting the trademarks acquired (note 2(j)).

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

d) As a result of a service agreement, up until December 31, 2007, the Company was required to pay compensation based on net food sales. This compensation ranges from 2.5% to 5.25%.

**Contingent liabilities:**

e) Alsea and subsidiaries are involved in a number of lawsuits and claims arising from 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.

f) Through its subsidiary Operadora de Franquicias Alsea, S. A. de C. V. (OFA), Alsea filed, in 2007 and 2008, an appeal for due compliance with the injunction sentence relative to application of the 0% value added tax rate (VAT) on the sale of food products. Application of this rate generated a favorable VAT balances for OFA, refund of which is expected.

## 18. Financial information per segment–

Alsea organizes its business segments into three operating divisions namely: the sale of food and bervarages in Mexico and South America, and distribution services. These divisions share the same management.

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

| | Food and Beverages | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Mexico | | South America | | Distribution | | Eliminations | | Consolidated | |
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| Revenue from: | | | | | | | | | | |
| Third parties | $ **5,451** | 4,743 | **642** | 347 | **955** | 923 | **–** | 13 | **7,048** | 6,026 |
| Inter-business | **–** | 4 | **–** | – | **1,665** | 1,406 | **(1,665)** | (1,410) | **–** | – |
| | **5,451** | 4,747 | **642** | 347 | **2,620** | 2,329 | **(1,665)** | (1,397) | **7,048** | 6,026 |
| Operating costs and expenses | **4,617** | 4,015 | **568** | 307 | **2,406** | 2,127 | **(1,693)** | (1,431) | **5,898** | 5,018 |
| Depreciation and amortization | **371** | 518 | **40** | 14 | **29** | 25 | **9** | 14 | **449** | 571 |
| Operating income | **463** | 214 | **34** | 26 | **185** | 177 | **19** | 20 | **701** | 437 |
| Other income statement items | | | | | | | | | **(223)** | (215) |
| Net consolidated income | | | | | | | | | $ **478** | 222 |
| Assets | **4,471** | 2,891 | **269** | 552 | **589** | 656 | **(1,134)** | (825) | **4,195** | 3,274 |
| Investment in associated companies | **–** | – | **23** | 3 | **–** | – | **–** | – | **23** | 3 |
| Investment in fixed assets and intangibles | **884** | 685 | **140** | 5 | **61** | 26 | **(3)** | 47 | **1,082** | 763 |
| Total assets | $ **5,355** | 3,576 | **432** | 560 | **650** | 682 | **(1,137)** | (778) | **5,300** | 4,040 |

## 19. Pro forma information on business acquisitions–

Condensed pro forma consolidated financial information is shown below as if the acquisitions had been completed in early 2006 (see note 1(b)).

| | December 31, 2006 | | |
|---|---|---|---|
| | Base figures | Pro forma adjustments (unaudited amounts) | Pro forma figures (unaudited amounts) |
| Income | $ 6,026,502 | 155,804 | 6,182,306 |
| Income from continuing operations | 237,859 | (4,192) | 233,667 |
| Consolidated net income | 228,633 | – | 228,633 |
| Minority interest | 6,452 | – | 6,452 |
| Majority interest net income | 222,181 | (4,192) | 217,989 |
| Net earnings per share | $ 0.37 | | 0.36 |

## 20. Subsequent events–

a) On January 23, 2008, Alsea entered into a number of agreements with the companies that hold the development rights of the “Italiannís” trademark in Mexico, as well as the operating rights of most of these restaurants, which could result in their acquisition.

The agreements entered into do not constitute a definitive acquisition agreement. Once the Evaluation stage, which is estimated to last 90 days, has concluded, the parties will determine the final terms and conditions for the agreements that will formalize this operation.

b) On January 24, 2008, Alsea entered into an agreement for the acquisition of 85% of the capital stock of Dominalco, S. A. (Domino’s Pizza Colombia). Within the next 60 days, the company is expecting to sign the purchase & sale agreement and other contracts related to the closing of the deal.

**Mr. José Rivera Río Rocha**
Chief Financial Officer

**Mr. Alberto Torrado Martínez**
Chief Executive Officer

**Mr. Abel Barrera Fermín**
Corporate Comptroller

# WE KNOW HOW

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Design: milenio3.com.mx Photography: Jaime Jacott / Ricardo Espinosa printing: Earth Color Houston

**Investor Relations**
Diego Gaxiola Cuevas
*Corporate Finance*
ri@alsea.com.mx
Tel. (5255) 5241 7158

Mario Padilla Velasquez
*Investor Relations*
mpadillav@alsea.com.mx
Tel. (5255) 5241 7158

**Headquarters**
Alsea S.A.B. de C.V.
Av. Paseo de la Reforma 222 - 3er piso
Torre 1 Corporativo
Col. Juárez, Del. Cuauhtémoc
C.P. 06600, México D.F.
Tel. (5255) 5241 7100

**Independent Auditors**
KPMG Cárdenas Dosal, S.C.
Boulevard Manuel Ávila Camacho # 176
C.P. 11650 México D.F.
Tel. (5255) 5246 8300

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

Alsea's 2007 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's Management, are based on currently known information; however, expectations may vary as a result of facts, circumstances and events beyond the control of Alsea and its subsidiaries.

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www.alsea.com.mx
Av. Paseo de la Reforma 222 - 3er piso
Torre 1 Corporativo
Col. Juárez, Del. Cuauhtémoc
C.P. 06600, México D.F.
Tel. (5255) 5241 7100