GRI 2.1, 2.2, 2.6

EXPANDING OUR HORIZONS

2013 was a record year in acquisitions, as well as organic growth. Thanks to our successful business model and diversification strategy, we were able to "Expand Our Horizons" in line with our strategic areas, which has allowed us to go beyond our clients' expectations, drive our employees' development, and ensure a synergy that maximizes our critical mass, while also ensuring the profitable and sustainable growth of the organization, being recognized as a socially responsible company.

OUR PROFILE

Alsea is the leading restaurant operator in Latin America with global leading brands in the Quick Service, Coffee Shop and Casual Dining segments.

ALSEA IS LIKE A

It is the strength that aligns and structures the brands, endowing them with energy and direction to achieve their goals, driving them to work every day, enriching the life of its consumers creating special moments for them.

Alsea

2013 ANNUAL REPORT

EXPANDING OUR HORIZONS

Alsea

Touching people,
enriching moments

Has **1,862** units and over **32,000** employees

GRI 2.2, 2.3, 2.5 2.7, 3.8

FINANCIAL HIGHLIGHTS(1)

	CAGR(5) 10 years	Annual Growth	2013	%	2012	%
INCOME STATEMENT						
Net Sales	19.1%	16.3%	15,718.5	100.0%	13,519.5	100.0%
Gross Profit	21.2%	19.7%	10,490.8	66.7%	8,764.2	64.8%
Operating Income	16.5%	39.9%	1,115.1	7.1%	797.3	5.9%
EBITDA (2)	17.8%	26.7%	2,038.2	13.0%	1,608.6	11.9%
Consolidated Net Profit	18.9%	65.1%	663.3	4.2%	401.8	3.0%
BALANCE SHEET						
Total Assets		26.4%	12,381.7	100.0%	9,797.6	100.0%
Cash		(28.9)%	663.3	5.4%	932.6	9.5%
Liabilities with Cost		52.0%	5,043.6	40.7%	3,317.2	33.9%
Major Shareholder's Equity		(5.5)%	4,271.4	34.5%	4,520.7	46.1%
PROFITABILITY						
ROIC(3)		3.1%	11.7%		8.6%	
ROE(4)		4.0%	14.5%		10.5%	
STOCK INFORMATION						
Share Price		58.2%	40.79		25.78	
Earnings per Share		73.0%	0.99		0.57	
Dividend per Share		0.0%	0.5		0.5	
Book Value per Share		(5.5)%	6.21		6.57	
Shares Outstanding (millions)		0.0%	687.8		687.8	
OPERATION						
Number of Units	12.8%	31.0%	1,862		1,421	
Employees	16.0%	17.2%	32,362		27,619	

(1) Figures in millions of pesos under IFRS, except per share data per, number of stores and employees.
(2) EBITDA is defined as operating income before depreciation and amortization.
(3) ROIC is defined as operating income after taxes over net operating investment (total assets - cash and cash equivalents - no-cost liabilities).
(4) ROE is defined as net profit over major shareholders' equity.
(5) CAGR Compound Annual Growth Rate 2004-2013.

Alsea + + + + + + + + + = Generating value to our Shareholders

STRATEGIC PLANNING

Alsea (BMV: ALSEA*) is the leading restaurant operator in Latin America with leading global brands in the Quick Service Restaurant (QSR), Coffee Shop and Casual Dining segments. The company has a multi-brand portfolio including Domino's Pizza, Starbucks, Burger King, Chili's, California Pizza Kitchen, P.F. Chang's, Pei Wei, Italianni's and The Cheesecake Factory.

At the end of 2013, the company operated a total of 1,862 units in Mexico, Argentina, Chile, Colombia and shortly in Brazil. Alsea's business model includes support for all the units through a Shared Services and Support Center that provides support in Management and Development Processes, as well as the Supply Chain. The company has more than 32,000 employees in five countries.

Alsea holds the "Socially Responsible Company" distinction, and is one of the top 20 "Best Places to Work" in Mexico.

MISSION

To have a team that is committed to exceeding our clients' expectations.
"Touching people, enriching moments".

PRINCIPLES

- **The customer comes first**
  To serve our customers with respect and passion for excellence in service.
- **Respect and loyalty to our coworkers and the company**
  To create a unified, respectful and unbiased work environment that is closely tied to the operations.
- **Personal excellence and commitment**
  To always act honestly, austerely and fairly, without putting personal interests first.
- **Results oriented**
  To always make strategic decisions that are for the good of the Company in order to improve results.

STRATEGIC AREAS

- **Clients:** Exceed our customers´ expectations through an unequalled experience in product, service and image.
- **People:** Encourage the personal and professional development of our employees.
- **Synergy:** Ensure synergy, maximizing critical mass in collaboration with our strategic partners.
- **Results:** Ensure the Company's profitable and sustainable growth.
- **Social Responsibility:** Be recognized by our clients and employees as a Socially Responsible Company.

BUSINESS MODEL

PRESENCE IN THE FIVE MOST IMPORTANT MARKETS OF LATIN AMERICA

1,575 Units

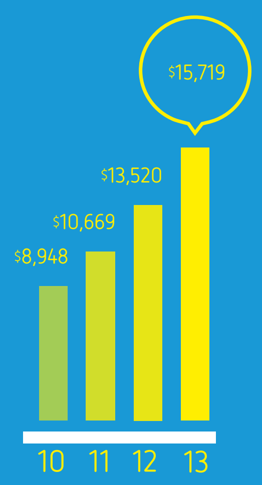
144 Units

88 Units

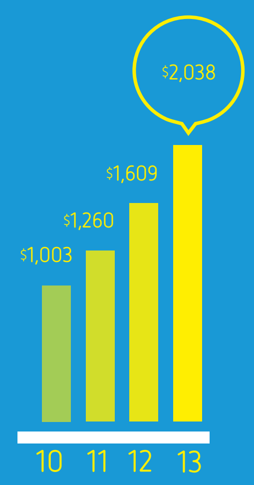
55 Units

2014 Business start-up

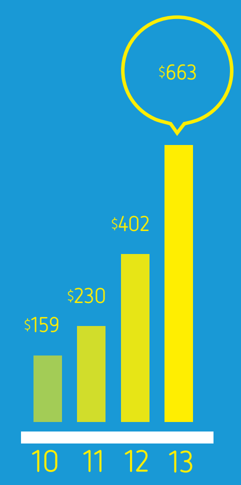
Net Sales
million pesos



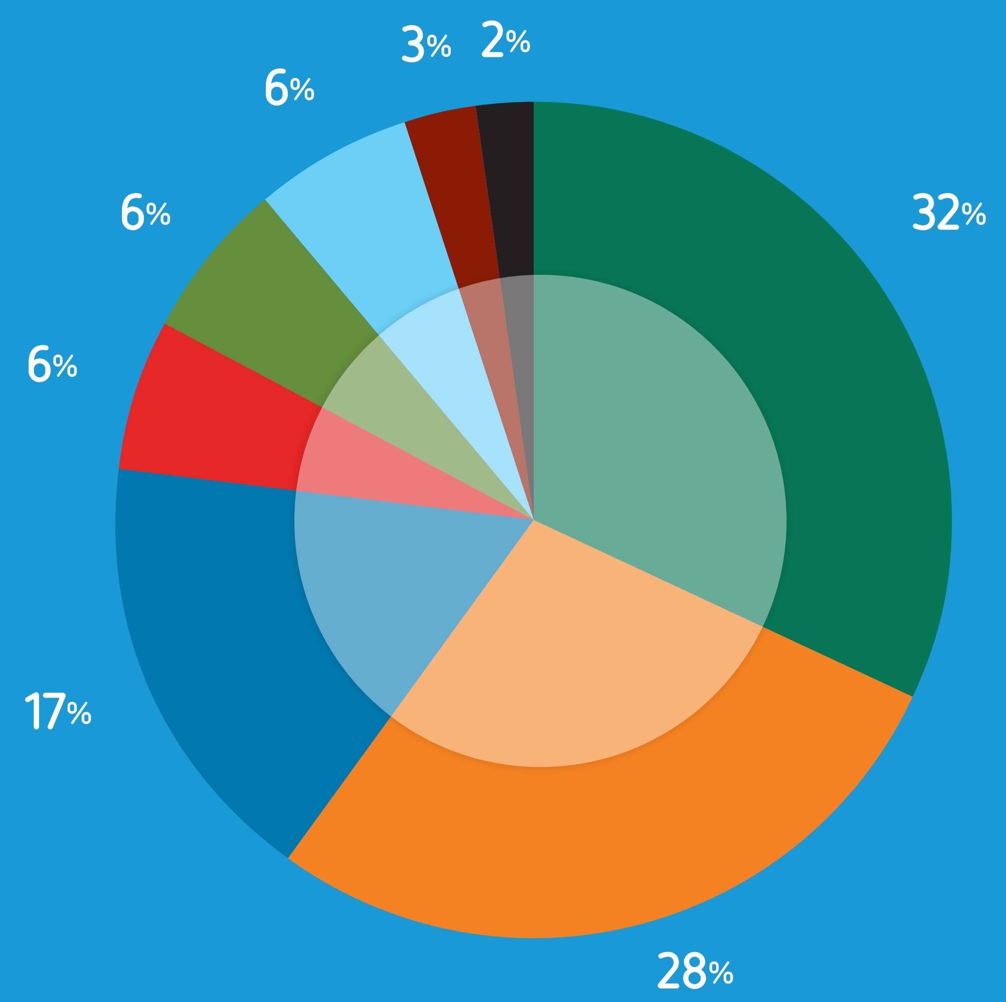
EBITDA
million pesos



Net Income
million pesos



SALES PER BRAND



QSR

28% Burger King

17% Domino's Pizza

COFFEE SHOPS

32% Starbucks

DISTRIBUTION AND PRODUCTION

6% DIA

CASUAL DINING

6% Chili's

6% Italianni's

3% P.F. Chang's / Pei Wei

2% California Pizza Kitchen

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Capex 3.6 billion pesos: record year in acquisitions and organic growth

Dear shareholders

It is a pleasure to share with you our results for the year 2013, a year full of achievements and a high dynamism for Alsea, in which we managed to expand our horizons, as well as our growth opportunities, through different organic growth and acquisitions initiatives.

These will allow us to continue increasing the profitability of the company year after year and generate a greater value for you, our shareholders.

A record year in terms of acquisitions

2013 was the year when the acquisitions that we managed to close led us to **expand our horizons**, becoming our record year, with a total Capex investment close to 3.6 billion pesos. The following acquisitions were closed:

- We achieved an agreement with **Burger King** to acquire 97 stores and the master franchise rights for Mexico. As a result, we consolidated **Alsea's business model**, gaining control over the brand in the Mexican market since April.
- We agreed to acquire the stakes of **Starbucks** in Mexico, Argentina and Chile, so **Alsea** now has a 100% stake in those markets, which positions us as **Starbucks´s** major business partner in the region.
- As part of our diversification strategy, we acquired 25% of **Grupo Axo**, a company that operates 16 brands in the fashion, cosmetic and household goods segments in Mexico. As a result, the company will leverage its strategic capabilities and business model maximizing synergies in its different processes.

Additionally, we reached an agreement with **Starbucks** for the development and operation of the brand in Colombia, with **P.F. Chang´s** for the development and operation of the brand in Brazil, as well as an agreement with Walmart Mexico to acquire the **VIPS** restaurant business, including a total of 361 units of **Vips**, **El Portón**, **Ragazzi** and **La Finca** brands, with which **Alsea** will be able to reach more than 2,200 units and almost fifty thousand collaborators.

Last year we were thrilled to close these transactions and agreements and now we are excited about the growth opportunities that these projects will give us in the future. We will manage to capitalize these projects thanks to our employee's experience and the successful business model we run, **expanding our horizons**.

Profitable Growth

By the end of the year, we operated 1,862 units, representing a net growth of 441 units, out of which 1,411 are corporate units and 451 are sub-franchises. These units are profitably operated with the support and assistance of more than 32,000 employees in five countries. Thanks to their support we obtained very good results throughout the year.

Facing a challenging macroeconomic environment, especially in the consumer good segment, in 2013 we achieved a growth of 8.0% in same-store sales and a net increase of **250 corporate units**, which allowed us to expand our margins and have an important growth in our profitability.

Financial Results

At the end of 2013, net sales increased 16.3% to 15.7 billion pesos in comparison to the previous year. This increase is derived from the increase in the number of units, both due to openings and acquisitions, as well as the growth in same store sales.

During the year, gross profit increased 1.7 billion pesos to 10.4 billion pesos, with a gross margin of 66.7%. Additionally, **EBITDA** grew 26.7% to 2.0 billion pesos at the end of 2013, which resulted in an increase of 110 basis points, ranging from 11.9% in 2012 to 13.0% during 2013.

15.7
BILLION PESOS IN NET SALES

INCREASE
26.7%
IN EBITDA VS THE PRIOR YEAR

13.0%
EBITDA MARGIN

8.0%
GROWTH IN SAME-STORE SALES

1,862
UNITS

Alsea + + + + + + + + + = The best moments in the best company

Majority net income also increased during the year, increasing 86.6% equivalent to 316 million pesos, closing at 681 million pesos. Earnings per Share, "EPS", for the past 12 months increased to 0.99 pesos compared to the previous year, having a growth of 73%. Also, Alsea managed to have an important improvement in its profitability metrics, closing 2013 with a Return on Equity, "ROE" of 14.5%, which represents an increase of 400 basis points.

A Promising Future

For 2014, we estimate to invest a total of approximately 1.8 billion pesos in our organic growth and maintenance capex of our existing units. Additionally:

- We will carry on with our successful development plan, which envisages the opening of 130 units of different portfolio brands for 2014.

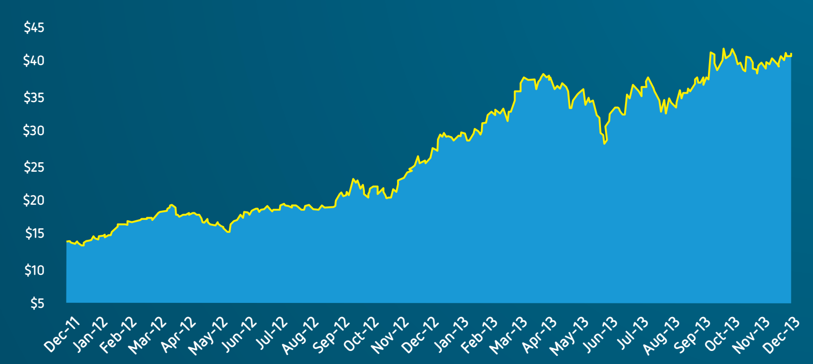
- During the next years, **Alsea** will consolidate the 2013 acquisitions, and in the same regard, for 2014 our brand **P.F. Chang's**, will start operating in Brazil, and so the company will start expanding in this key market, expanding our potential of future growth within the Casual Dining segment.

- Also, we will open our first **The Cheesecake Factory** unit in Mexico, a prestigious brand which has the highest volumes per unit in the world. Since we have the rights to develop the brand in Latin America, this project will represent a new growth channel in the medium term for **Alsea**.

- In compliance with the long-term commitment with our business partners, the first **Starbucks** unit will start business in Colombia, helping us to consolidate our growth in South America; specifically we are strengthening our business model in a market as important as the Colombian, supporting the project with our experience with this brand in Mexico, Argentina and Chile.

- Once the process of acquiring **VIPS** ends, we will accelerate the growth of the company with the incorporation of the 361 restaurants included in the operation, including the administrative office in charge of the standardization of products, bulk purchases, centralization of supplier delivery, as well as the manufacturing of dressings, soups and desserts. Through the **Vips** and **El Portón** formats, we will manage to supplement our portfolio offer, seeking to serve the medium-low class, which, we believe, will have important growth rates in line with the growth of the Mexican economy.

SHARE - PRICE PERFORMANCE



AVERAGE VALUE TRADED IN 2013
$56 MILLION PESOS

58.2%
SHARE PRICE GROWTH

3RD SHARE
WITH THE HIGHEST PERFORMANCE IN 2013

Social Responsibility

We are aware of the new challenges in environmental, financial and social aspects; therefore, we are continuously working to **expand our horizons** and go beyond what our stakeholders demand from us, through our Social Responsibility Committee and our Quality of Life, Responsible Consumption, Environmental and Community Support Commissions.

During 2013 we achieved:

- To be honored for the second consecutive year with the **Socially Responsible Company** distinction by CEMEFI.

- For the first time we are part of the **Mexican Stock Exchange Sustainability Index**.

- Be part – for the third consecutive year- of the United Nations **Global Compact**, operating in compliance with the guidelines of its Principles.

- Celebrate the first anniversary of the **"Va por mi cuenta" - "It's on me"** initiative, a social movement that contributes to ending child malnutrition in Mexico. We have successfully opened three children Dining Rooms in the cities of Metepec, Chalco and Ecatepec in Estado de Mexico, which serve more than 130,000 nourishing meals to children living in extreme poverty. The 4th "Our Dining Room" is currently under construction in Mexico City, to serve 330 children more. Our employees donated volunteer work equivalent to 20,000 hours.

- In terms of **Responsible Consumption**, we made nutrition facts of the main Alsea brand products accessible to all our consumers.

- Concerning the **Environment**, we have included 803 establishments in our energy program, saving almost 12.5 millions of kWh of electricity.

- Thanks to our **Quality of Life** programs, Alsea was included in the **Great Place to Work** ranking in Mexico as one of the top 20 Best Places to Work in the category of 5,000+ employees.

We are committed to improving our corporate governance practices, not only to comply as we do now with all the legal rules of the Stock Market, but also to excel them.

3RD YEAR IN THE IPC INDEX

cotiza en Bolsa Mexicana
ALSEA

The future is full of opportunities that we will efficiently leverage by combining the support and approach of our team, the positioning and strength of our brands, as well as the flexibility and support through our **business model** of shared services.

On behalf of the more than 32,000 employees that are part of **Alsea**, we appreciate your trust and support. We will continue being focused on engaging in initiatives and actions that generate value to all our shareholders, employees, consumers, strategic partners and the community in general, always **expanding our horizons**.

Fabián Gosselin
Chief Executive Officer
March 2014

GROWING BEYOND THE HORIZONS

In 2013, Alsea showed a broad dynamism, achieving a net growth of 441 units, out of which 250 where corporate units, which represented greater margins and profitability for the company. For 2014, the Company estimates an organic growth plan of more than 130 units.

Acquisition of 100% of the Starbucks stakes in Mexico, Chile and Argentina, to become Starbucks's major business partner in the region.

Furthermore, the Company reached an agreement with Starbucks for the development and operation of the brand in Colombia.

Acquisition of 97 stores in Mexico and the master franchise rights in the country, consolidating thereby Alsea's business model.

Record year in acquisitions

Capex 3.6 billion pesos

Net growth of **441** units

Increase of **250** corporate units

A PROMISING FUTURE

Entrance to the Brazilian market, start of operations with P.F. Chang's

Development of The Cheesecake Factory in Mexico

Opening of Starbucks in Colombia

DIVERSIFICATION

The diversification strategy will originate a new growth curve in the medium and long term, **expanding the horizons** towards other retail segments.

Alsea acquired 25% of **Grupo Axo**, leading company in the merchandising and distribution of international brands in the fashion, cosmetics and household goods.

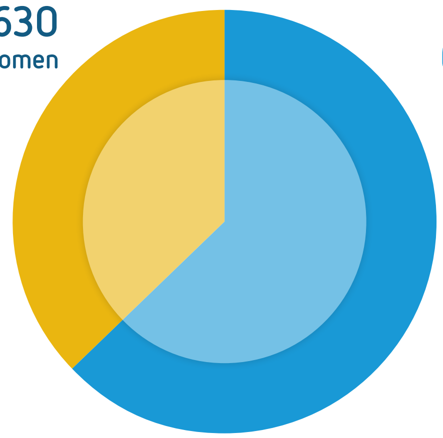
UNLIMITED TALENT
AND COMMITMENT

In 2013, as a result of its ongoing work in favor of its employees', quality of life and development, Alsea was recognized in Mexico as one of the top 20 "Best Places to Work".

Alsea always acts ethically and responsibly, promoting personal and labor balance in and outside the company, as well as a culture of fairness and diversity throughout the organization. The Code of Conduct guarantees equality of opportunities, respect and non-discrimination.

GREAT PLACE TO WORK®

Percentage of Men and Women



75% Permanent employment contract

25% Temporary employment contract

25 Years of age on average

25 Years or less	57%
26 to 34	28%
35 to 44	11%
45 to 54	3%
55 or more	1%

*The information about the percentage of men and women, permanent employment contract and average age is only for Mexico.

TOTAL EMPLOYEES

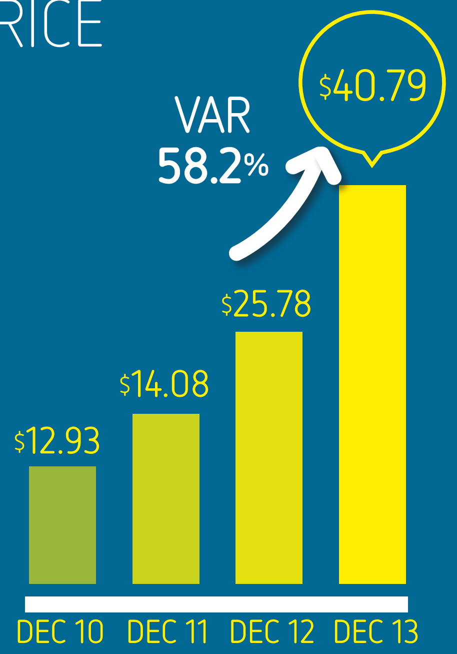
32,362

INCREASE OF 17% VS PRIOR YEAR

GRI 2.8, 2.9, 2.10

EXPANDING THE HORIZONS OF PROFITABILITY

SHARE PRICE



INCREASE IN THE AVERAGE DAILY VALUE TRADED

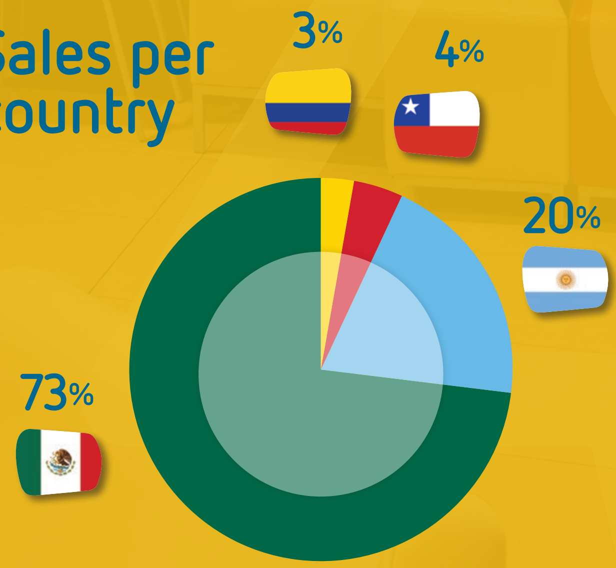
150% VS 2012

Third consecutive year in the IPC Index

Listed for the first time in the IPC Sustainability Index of the Mexican Stock Exchange

Índice IPC Sustentable

Sales per country

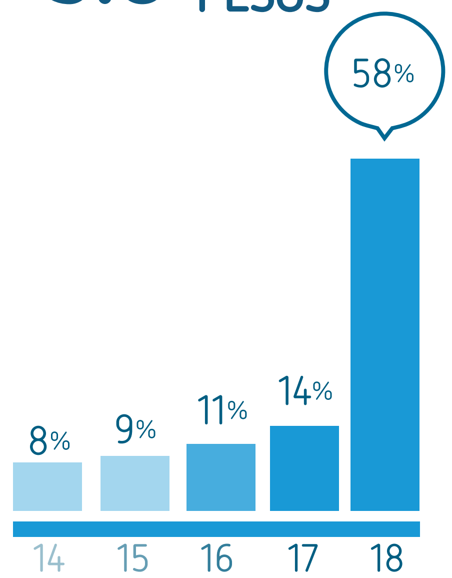


$2.5 BILLION PESOS

LOCAL BONDS ISSUED TO 5 YEARS

DEBT STRUCTURE

$5.0 BILLION PESOS



26.7% GROWTH

IN EBITDA MARGIN TO 2.0 BILLION PESOS
INCREASE OF 110 PBS

88.6% GROWTH

IN GROSS PROFIT TO 663 MILLION PESOS

ROE	ROIC
14.5%	11.7%

ADDED VALUE
THAT BROADENS THE HORIZONS

Net sales increased 16.3% to 15.7 billion pesos in 2013 compared with the previous year, as a result of customer satisfaction, which also results in a growth of 8.0% in Same-Store Sales.

Starbucks Mexico and **Domino's Colombia** had the highest growth in Same-Store Sales.

8.0%
GROWTH IN SAME-STORE SALES

SALES OF 15.7 BILLION PESOS

16.3%
INCREASE

MORE THAN 260 MILLION
customers served

6.8%
INCREASE IN AVERAGE TICKET

MESSAGE FROM THE CHAIRMAN OF THE BOARD

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

Dear Shareholders:

Once again, Alsea, through its Board of Directors, reaffirms its commitment to be a company that fully complies with the Code of Best Practices, to guarantee the highest standards of Corporate Governance, building greater safety and trust among its shareholders, as it has been since the initial public offering of our shares in the stock market. In this manner, Alsea has managed to achieve its ambitious business plans efficiently and profitably.

In 2013, the share price of Alsea had a positive performance, as the profit per share grew 73% compared to the previous year. During this period, Alsea conducted unprecedented investment decisions, all in the long term, seeking to guarantee the profitable growth of the company; to ensure that it has operating capacity to successfully accomplish these highly important projects.

The Board of Directors, its governance bodies and management, have worked jointly to prepare the Strategic Plan 2020, to help the company achieve the profitability and growth expected in the market, protecting the company at all times from the implicit risks of a challenging management, both because of its size, as well as its geographic and brand diversification.

Alsea has proven to be a company committed to the community, the environment and the quality of life of its employees and customers.

Likewise, the company has proven to follow responsible and solid business practices, which has led it to be part of the Mexican Stock Exchange Sustainability Index as of 2013, generating thereby value to the business, its employees and shareholders.

Sincerely,

Alberto Torrado Martínez
Chairman of the Board

GRI 4.1, 4.2, 4.3, 4.4, 4.5, 4.7, 4.9, 4.10, 4.11

TRANSCENDING WITH RESPONSIBILITY AND ETHICS

CORPORATE GOVERNANCE

Alsea's solid structure for Corporate Governance contributes to our development and long-term viability.

CORPORATE GOVERNANCE

10 BOARD MEMBERS

5 INDEPENDENT BOARD MEMBERS

CHAIRMAN: PROPRIETARY BOARD MEMBER

CORPORATE PRACTICES COMMITTEE

AUDIT COMMITTEE

In compliance with the Securities Exchange Act and seeking to assist the Board of Directors, Alsea has created two committees acting as intermediary management bodies: The Corporate Practices Committee and the Audit Committee, which are made exclusively by Independent Board Members.

The compensation framework for Alsea´s Board Members, is fixed, and calculated based on attendance to Shareholders´ meetings and committees to which each Member belongs, their participation in discussions and the effectiveness of strategic decisions made by them.

The Board of Directors is constituted by ten members, ratified or appointed by the General and Extraordinary Shareholders' Meetings held on April 13, 2013. The Board of Directors includes five independent members and one proprietary board member as chairman.

Concerned about having an impartial approach to strategic planning, Alsea has appointed Independent Members to the Board of Directors, 50% of which are Independent Members, exceeding the percentage of 25% required by the Securities Exchange Act. The company does not have Alternate Board Members, as it is considered that a Board Member is failing his/her duty to the rest of the Board Members by his/her non-attendance. The company can convene a Shareholders' Meeting at the request of at least 25% of the Board Members.

For more information consult the **Corporate Governance** and **Reports Center** sections of the Alsea website.

Corporate Governance

Reports Center

BOARD OF DIRECTORS

CHAIRMAN
Alberto Torrado Martínez

SHAREHOLDER BOARD

Alberto Torrado Martínez
CHAIRMAN

Cosme Torrado Martínez
SHAREHOLDER

Armando Torrado Martínez
SHAREHOLDER

Fabián Gerardo Gosselin Castro
CHIEF EXECUTIVE OFFICER

Federico Tejado Bárcena
CEO STARBUCKS MEXICO

INDEPENDENT BOARD MEMBERS

Marcelo A. Rivero Garza
CHAIRMAN, BRAIN STRATEGIC INSIGHT

Julio Gutiérrez Mercadillo
CHAIRMAN, GRUPO METIS

Raúl Méndez Segura
CHAIRMAN, GRUPO GREEN RIVER

Iván Moguel Kuri
PARTNER CHÉVEZ, RUIZ ZAMARRIPA Y CÍA., S.C.

León Kraig Eskenazi
DIRECTOR AND PARTNER OF IGNIA PARTNERS, LLC.

SECRETARY

Xavier Mangino Dueñas
PARTNER DIAZ RIVERA Y MANGINO, S.C.

AUDIT COMMITTEE

Iván Moguel Kuri
CHAIRMAN

Julio Gutiérrez Mercadillo
MEMBER

Raúl Méndez Segura
MEMBER

Elizabeth Garrido López
SECRETARY

CORPORATE PRACTICES COMMITTEE

Julio Gutiérrez Mercadillo
CHAIRMAN

Marcelo A. Rivero Garza
MEMBER

León Kraig Eskenazi
DIRECTOR AND PARTNER OF IGNIA PARTNERS, LLC.

Elizabeth Garrido López
SECRETARY

PARTICIPATION IN CHAMBERS AND ASSOCIATIONS

- *Consejo de la Comunicación*, members of the board, with active participation in social benefits campaigns.
- American Chamber of Commerce, as a guest member of the Tax Committee and the Real Estate Development Committee.
- AMCO (*Asociación Mexicana de Comunicaciones*).

Alsea, contributes to the development of public policies on issues that could have an effect on our operations, always within the framework of the law and adhering to the highest ethical standards of each country where we are present.

The Company complies with laws and regulations governing economic competence, anti-trust practices and the arm's length principle, therefore it has never been penalized for failing to adhere to them.

CODE OF ETHICS AND CONDUCT

The Code provides the guidelines through which the company does its everyday activities, in line with its strategic planning.

Alsea promotes a fairness and diversity culture, and any act of discrimination for reasons of age, color, disability, marital status, race, religion, gender and sexual orientation is sanctioned by the Code of Ethics and Conduct.

Línea Correcta is the open line to receive reports related with the violation of the Code of Ethics and Conduct by Alsea's employees, as well as to report complaints related to customer and supplier service. All the information received is promptly processed and responded to by the Alsea Ethics Committee.

For more information consult the **Code of Ethics and Conduct** in Alsea´s website

RESPONSIBLE MANAGEMENT

Alsea succeeds in its Social Responsibility management through its Social Responsibility structure. The Company has 70 representatives from areas, led by the Chairman of the Board and the Chief Executive Officer, who meet periodically to assess the relevance of internal and external matters and to respond to stakeholders' concerns, determined by the Social Responsibility Committee.

In order to comply with our programs and initiatives, the Committee has four Commissions: Community Support, Responsible Consumption, Quality of Life and Environment. This structure is already consolidated and currently has a five-year development plan for Mexico.

The main challenge is to create specific plans and programs for Latin America, strengthening the Social Responsibility Strategy of Alsea.

DIALOGUE WITH STAKEHOLDERS

	GROUPS OF INTEREST				
	SHAREHOLDERS	CLIENTS	COLLABORATORS	SUPPLIERS	COMMUNITY
Shareholders' Meeting	Annual				
Relations with Investors	Permanent				
Portfolio of Internal Means of Communication			Permanent		
Dialogue with our Communities					Permanent
Electronic Media	Permanent	Permanent	Permanent	Permanent	Permanent
Organizational Climate Surveys			Annual		
Focus Groups		Permanent			
Línea Correcta*		Permanent	Permanent	Permanent	

* Phone line for complaints

ANNUAL ● PERMANENT ●

For Alsea, being socially responsible means having a positive impact, both inside and outside the company. Social Responsibility is an attitude incorporated into all aspects of planning and operation in the business units that build the Company.

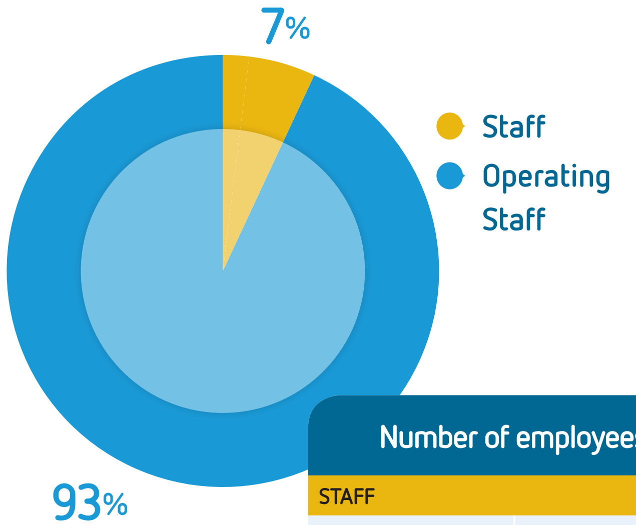
QUALITY OF LIFE

Alsea is an inclusive company, where minorities have access to the same opportunities and possibilities for personal, labor and financial development. As a result it expands the horizons by incorporating people with disabilities and the elderly to the operations.

EMPLOYEES WITH DISABILITIES IN ALSEA

136 VS 90 IN 2012

Employees Breakdown



Number of employees	
STAFF	
Mexico	1,742
Latam	351
OPERATING STAFF	
Mexico	21,293
Latam	8,976
ALSEA TOTAL	32, 362

SUCCESS STORY

For Salvador Torres "Chavita", Lobby Manager, Burger King is his second home and he is proud to have worked here for 10 years.

7,667 EMPLOYEES internally promoted

8,222 DIRECT EMPLOYMENT CONTRACTS CREATED

86 HOURS of training per year for collaborators who serve customers daily

In order to strengthen our employees' physical and financial health, Alsea organized:

- Health City
- Weight challenge
- Financial Health Week
- Creation of the *Maximiza* savings account

It also strengthened quality life through:

- The alignment of the Variable Compensation Plan for Managers, of all brands
- The strengthening of the "Monthly weekend off for managers"

RESPONSIBLE CONSUMPTION

Alsea expands its horizons by contributing to consumers' wellbeing, promoting healthy lifestyles and a balanced nutrition that combines physical activity and a healthy diet. Likewise, and voluntarily consumers are provided with nutritional facts of Alsea's main Food and Beverages products through the brands and Company's websites, as a sign of our concern for our customers' wellbeing.

SATISFIED CUSTOMERS

Domino's	MEXICO	83.8%
Starbucks	MEXICO	97.1%
	ARGENTINA	97.0%
	CHILE	96.8%
Burger King	MEXICO	85.8%
	ARGENTINA	86.6%
	COLOMBIA	92.4%
Chili's	MEXICO	79.4%
California Pizza Kitchen	MEXICO	84.9%
Pei Wei	MEXICO	75.0%
P.F. Chang's	MEXICO	82.8%
	ARGENTINA	86.6%
Italianni's	MEXICO	78.8%

CUSTOMER SATISFACTION

All the brands have a program that measures customers' level of satisfaction, in addition to having proven customer-service and complaint-solving procedures.

CLIENTS

No incidents involving the failure to comply with product labeling or marketing communications regulations, including advertising, promotion, and sponsorship. No complaints related to improper use of consumers' personal data.

The wellness program includes three basic pillars:

Physical activity

OBJECTIVES

- Activate the Mexican youth.
- Promote physical activity.
- Stimulate through social networks.

ACTIONS

- Starbucks Mexico Race (22,000 participants).
- 444,000 activations that promote an active lifestyle through Domino's Pizza's social networks.
- Chili's Cup (446 people).

Product

OBJECTIVES

- Comply with regulatory and standard guidelines for quality.
- Meet clients' needs.
- Define brand standards and processes.

ACTIONS

- Publication of nutritional facts of products in websites.
- Innovation and improvement of products.

Communication

OBJECTIVES

Guidelines for communication and dissemination of programs and advertising campaigns.

ACTIONS

- Advertising and communication at the points of purchase.
- Dissemination strategy.
- Adherence to the PABI Code and marketing codes.

THE CHALLENGE FOR THE NEXT YEARS,

AS OF 2014, IS TO STRENGTHEN OUR BRANDS' POSITIONING IN TERMS OF THE THREE BASIC PILLARS ABOVE.

For more information consult the living a balance life of Alsea's website

VALUE CHAIN

SUPPLIERS

Alsea's Procurement Department works hard to supply the company with excellent quality products at competitive prices, as well as to develop and oversee our suppliers' financial, social and environmental practices.

Alsea invites its suppliers to commit to social responsibility and the chain of value, by signing the "Letter of Compliance with Laws and Regulations", as part of its requirements to register procurement suppliers through which they are committed to:

- Human Rights.
- Workers' Rights, Safety and Health.
- Civil Protection Law.
- Federal Environmental Regulations.
- Anticorruption Practices.

For more information consult the Procurement Policy on Alsea´s website

80%

OF TOTAL PURCHASE IN MEXICO COMES FROM LOCAL SUPPLIERS

SUCCESS STORY

Campo Vivo was created in 2007, after working for many years with organic farmers.

1. Alsea and Endeavor Mexico launched a program for the development and growth of suppliers.

2. Campo Vivo was chosen to take part in the program.

3. The mission of Campo Vivo is to develop organic farming through a strong brand and efficient production and distribution. Alsea helped them to obtain funding and provided training and support on marketing and communication.

Alsea + + = Generating value to our suppliers

Launch of product MAY 2010

In May 2010, Campo Vivo products were launched. These are organic, certified products free of synthetic chemicals, the production of which has a lower impact on the environment.

4. / 5. Direct and Indirect Impact:

- Global sales of juice grew more than 120%.
- Positive impact on farming, by privileging local fruit producers in the area.
- Creation of an important source of employment.
- Empower women from Jungapeo, Michoacán.

"To sum up, we could say that the global impact of Alsea over a SME like Campo Vivo and its employees has been strong and beneficial. We have been able to increase our global volume, improve our product image, as well as the credibility of our other customers, increase our sales at self-service stores, have training activities, increase our production capacity and be able to develop a top HACCP control system that has allowed us to sell our products to new clients".

Mateo Dornier
Owner of Campo Vivo

ENVIRONMENT

By sustainably operating its stores, Alsea expands the horizons of environmental care, assuring profitability through innovation and leadership on four lines of action of its Environmental Sustainability Plan:

- **Energy:** Seeking to reduce energy consumption and promote the use of renewable energy.
- **Water:** Optimizing water consumption by implementing better practices.
- **Waste:** Minimizing the amount of waste sent to landfills, promoting recycling and correct waste segregation.
- **Inputs:** Promoting the use of eco-friendly materials that promote an eco-friendly lifestyle among consumers, employees and suppliers.

ENERGY

803 ESTABLISHMENTS HAVE HIGH EFFICIENCY EQUIPMENT

583 OF CONTROL AND AUTOMATION

SAVING OF
762,234 L
OF LP GAS PER YEAR

12,463,577 kWh
ENERGY SAVING

*The figures mentioned in this section only include results for Mexico.

OBJECTIVES 2013 achieved per Unit

Note: Only considers power: 87% of information calculated based on actual consumption and 13% of estimated information based on averages by brand. Only stores operating through November 2013 are considered because of billing timing from CFE.-*Comisión Federal de Electricidad*-.

ENERGY EFFICIENCY INITIATIVES

- 166 heaters were replaced in our restaurants, switching to more efficient equipments.
- 10 Domino's Pizza and Burger King establishments now use natural gas instead of LP gas.
- Signing of the first contract with a photovoltaic park through which 200 establishments in Mexico will be supplied with green energy.

GRI 1.2, 2.10, 3.9, EN3, EN4, EN5, EN6, EN7, EN16, EN22, EN26, PR1

SUCCESS STORY

The Starbucks store located in Bosque de Chapultepec is the first Starbucks store awarded a LEED® SILVER certification in Mexico. It was designed and built in compliance with the guidelines established by the Green Building Certification Institute (GBCI).

Besides, the company was able to meet with specific guidelines for the certification of three more stores in 2012:

- Costanera Center
- Ariztia Building
- Plaza San Carlos

LEED®, and its related logo, is a trademark owned by the U.S. Green Building Council® and is used with permission.

Alsea was recognized by the Ministry of the Environment of Mexico City for taking part in the *"Ponte las Pilas con tu Ciudad"* program, and collecting batteries for the first time in the offices.

INPUTS

Alsea is involved with its products life cycles and strives to minimize the impact on the environment due to their consumption. Therefore, we promote the use of inputs that:

- Have post-consumption or post-industrial materials.
- Reduce associated emissions.
- Reduce to a minimum the use of packaging and use the lower percentage of natural or non-renewable raw materials.

We also promote the use of

- Recyclable products.
- Reused durable goods.
- FSC[1] certified products.
- Electric equipment certified by Energy Star.
- Paint and sealers with a low VOC[2] content and low-mercury lamps.

[1] Forest Stewardship Council.
[2] Volatile Organic Compounds

WASTE AND WATER

COLLECTION OF
462,682 L
OF USED OIL

PREVENTING THE POLLUTION OF
463 MM
L OF WATER

2018 GOALS

REDUCTION OF
10%
ELECTRICITY CONSUMPTION

75%
COMING FROM RENEWABLE SOURCES

Zero wastes
TO SANITARY LANDFILL IN THE PRINCIPAL CITIES

COMMUNITY SUPPORT

Alsea goes beyond the horizons by supporting the growth and wellbeing of the communities where it operates through:

- Community Service/ volunteering.
- Financial donations.
- Donations in kind.

DURING 2013 THE COMPANY ACHIEVED:

20,000
VOLUNTEERED HOURS

21,611 KG
OF GRAINS COLLECTED THROUGH THE CAMPAIGN **"SEMILLAS QUE LLENAN VIDA"**, ORGANIZED BY DOMINO´S PIZZA

19,828
PIECES OF FOOD DONATED

AFTER THE NATURAL DISASTERS IN ACAPULCO, GUERRERO IN 2013, ALSEA COMMITTED TO SUPPORT THE DAMAGED COMMUNITIES, DONATING MORE THAN 1 MILLION PESOS DESTINED TO:

- Housing reconstruction
- Food and household goods purchase

Alsea FUNDACIÓN

Fundación Alsea, A.C. reaffirms its commitment to ensuring food security in vulnerable communities and promoting human development through education.

For more information, visit the website www.movimientovapormicuenta.org

COMMUNITY DEVELOPMENT

Through the alliance with *Fondo para la Paz, I.A.P., Fundación Alsea, A.C.*, combats extreme poverty in 12 communities of the State of Oaxaca, providing access to basic services, caring for and preserving the environment, as well as developing social capital, empowering women and reducing child malnutrition.

Celebration of the 1st ANNIVERSARY
More than **$23 million pesos** donated

Operation of three **"OUR DINING ROOMS"** in Metepec, Chalco and Ecatepec

800 CHILDREN, are served meals daily, as of today,
73% of these children have overcome malnourishment

More than **130,000** nutritious meals served

The 4th "Our Dining Room" is now under construction, it will serve **330 MORE CHILDREN**

FOOD SECURITY

Alsea has strengthened its relationship with *Comedor Santa María, A.C.* consolidating the brand *"Nuestro Comedor"* whose operational model assures that thousands of children in extreme poverty have access to a good daily nutrition.

EDUCATION

Fundación Alsea, A.C., has given a 100% scholarship for nine years, to 136 middle-school students from the *Federación Mano Amiga Chalco, A.C.*, who thanks to this support are now about to complete their studies.

Also, thanks to yearly talks by Alsea leaders who share salient life and professional stories, the company has managed to help young people and their families gain awareness of the fact that a combination of hard work, study and perseverance can help them reach their goals.

SOCIAL RESPONSIBILITY **CHALLENGES**

To engage Latin American leaders in Social Responsibility Management, to consolidate plans in the rest of the countries where Alsea operates, as well as to strengthen the actions in which the company is currently engaged.

QUALITY OF LIFE

- Consolidate the "Monthly weekend off for managers" program.
- Increase the number of disabled or elderly people in our staff.
- Keep promoting actions that guarantee that Alsea continues to be one of the best places to work.

RESPONSIBLE CONSUMPTION

- Exceed new nutrition regulations to become industry leaders in this field.
- Strengthen activation of Alsea and its brands' wellness approach in three basic aspects:
  - Product
  - Physical Activity
  - Communication

ENVIRONMENT

- Second stage of Renewable Energy Consumption.
- 1st Sustainability Exhibition for employees.
- Pilot test of Integrated Waste Management (Starbucks Mexico).
- Strengthen the waste kitchen oil collection and recycling program.

COMMUNITY SUPPORT

- Build and operate the 4th *"Nuestro Comedor"* located in Mexico City.
- Take *"Nuestro Comedor"* to other states of Mexico.
- Promote social investment programs in the countries where the company has presence.

GRI 3.12

3.1 GRI INDEX

● Fully
○ Partially

GRI Indicator	Description	Level of reporting	Global Compact Principles	Page
Strategy and Analysis				
1.1	Statement from the most senior decision maker of the organization about the relevance of sustainability to the organization and its strategy.	●	–	7, 11, 39
1.2	Description of key impacts, risks, and opportunities.	●	–	7, 11, 31, 39
Organizational Profile				
2.1	Name of the organization.	●	–	Foldout
2.2	Primary brands, products, and/or services.	●	–	Foldout, Inside front cover, 3, 11
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	●	–	Inside front cover, 3, 5
2.4	Location of organization's headquarters.	●	–	Inside back cover
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	●	–	Inside front cover, 3, 5
2.6	Nature of ownership and legal form.	●	–	Foldout, 3
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	●	–	Inside front cover, 3, 5
2.8	Scale of the reporting organization (Number of employees, operations, net sales, total capitalization, etc.).	●	–	1, 5, 7, 13, 15, 17, 39
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	●	–	7, 9, 11, 15
2.10	Awards received in the reporting period.	●	–	3, 9, 13, 15, 31
Report parameters				
Report profile				
3.1	Reporting period for information provided.	●	–	Inside back cover
3.2	Date of most recent previous report.	●	–	Inside back cover
3.3	Reporting cycle (annual, biennial, etc.).	●	–	Inside back cover
3.4	Contact point for questions regarding the report or its contents.	●	–	Inside back cover
Report scope and boundary				
3.5	Process for defining report content (determining materiality, prioritizing topics within the report; and identifying stakeholders the organization expects to use the report).	●	–	23
3.6	Boundary of the report.	●	–	Inside back cover
3.7	State any specific limitations on the scope or boundary of the report.	●	–	Inside back cover
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	●	–	Inside front cover
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	●	–	31
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement.	●	–	Inside back cover
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	●	–	7, 11
GRI Content Index				
3.12	Table identifying the location of the Standard Disclosures in the report	●	–	35
Assurance				
3.13	Policy and current practice with regard to seeking external assurance for the report.	●	–	Inside back cover
Governance, commitments and engagement				
Governance				
4.1	Governance structure of the organization.	●	1-10	19, 21

GRI Indicator	Description	Level of reporting	Global Compact Principles	Page
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	●	1-10	19, 21
4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	●	1-10	19
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	●	1-10	19, 21
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives, and the organization's performance.	●	1-10	19
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	●	1-10	21
4.7	Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees.	●	1-10	19
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	●	1-10	3, 13, 21
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	●	1-10	19
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	○	1-10	19, 49
Commitments to external initiatives				
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	●	7	19, 47
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	●	1-10	9, 33, 39, Inside back cover
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: has positions in governance bodies; participates in projects or committees; Provides substantive funding beyond routine membership dues; or views membership as strategic.	●	1-10	21
Stakeholder Engagement				
4.14	List of stakeholder groups engaged by the organization.	●	–	23
4.15	Basis for identification and selection of stakeholders with whom to engage.	●	–	23
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	●	–	23
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	○	8	23
Economic Performance Indicators				
Aspect: Market presence				
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	○	–	29
Aspect: Indirect economic impacts				
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	●	–	9, 33
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	○	–	29
Environmental Performance Indicators				
Aspect: Energy				
EN3	Direct energy consumption by primary energy source.	○	8	31
EN4	Indirect energy consumption by primary source.	○	8	31
EN5	Energy saved due to conservation and efficiency improvements.	●	8-9	9, 31
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	●	8-9	31
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	●	8-9	31
Aspect: Emissions, effluents and waste				
EN16	Total direct and indirect greenhouse gas emissions by weight.	●	8	31
EN22	Total weight of waste by type and disposal method.	○	8	31
Aspect: Products and services				
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	●	7-9	31
Aspect: Compliance				
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.	●	8	47
Labor practices and decent work Performance Indicators				
Aspect: Employment				
LA1	Total workforce by employment type, employment contract, and region, broken down by gender.	○	–	13, 25
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region.	○	6	25
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.	○	–	25
Aspect: Occupational health and safety				
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.	○	1	25
Aspect: Training and education				
LA10	Average hours of training per year per employee by gender, and by employee category.	●	–	25
Aspect: Diversity and equal opportunity				
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	○	1, 6	13, 21, 25
Human Rights Performance Indicators				
Aspect: Investment and procurement practices				
HR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.	○	1, 6	29
Aspect: Non-discrimination				
HR4	Total number of incidents of discrimination and corrective actions taken.	●	1-2, 6	13, 21
Society Performance Indicators				
Aspect: Communities				
SO4	Actions taken in response to incidents of corruption.	●	10	21
Aspect: Public policy				
SO5	Public policy positions and participation in public policy development and lobbying.	●	1-10	21
Aspect: Anti-competitive behavior				
SO7	Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes.	●	–	21
Aspect: Compliance				
SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations.	●	–	47
Product Responsibility Performance Indicators				
Aspect: Customer health and safety				
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	●	1	31
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	●	1	27
Aspect: Product and service labeling				
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	○	8	27
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	●	8	27
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	●	–	27
Aspect: Marketing communications				
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	●	–	27
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	●	–	27
Aspect: Customer privacy				
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	●	1	27
Aspect: Compliance				
PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.	●	–	47

THE UN GLOBAL COMPACT'S TEN PRINCIPLES

AREA	PRINCIPLES
Human Rights	PRINCIPLE 1: Businesses should support and respect the protection of internationally proclaimed human rights.
	PRINCIPLE 2: Make sure that they are not complicit in human rights abuses.
Labour	PRINCIPLE 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
	PRINCIPLE 4: The elimination of all forms of forced and compulsory labour.
	PRINCIPLE 5: The effective abolition of child labour.
	PRINCIPLE 6: The elimination of discrimination in respect of employment and occupation.
Environment	PRINCIPLE 7: Businesses should support a precautionary approach to environmental challenges.
	PRINCIPLE 8: Undertake initiatives to promote greater environmental responsibility.
	PRINCIPLE 9: Encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption	PRINCIPLE 10: Businesses should work against corruption in all its forms, including extortion and bribery.

THE MILLENNIUM DEVELOPMENT GOALS

With actions developed by Alsea, the Company contributes to the fulfillment of the following Millennium Goals:

- **GOAL 1:** Eradicate extreme poverty and hunger.
- **GOAL 2:** Achieve universal elementary education.
- **GOAL 3:** Promote gender equality and empower women.
- **GOAL 7:** Ensure environmental sustainability.
- **GOAL 8:** Develop a global partnership for development.

MANAGEMENT DISCUSSION & ANALYSIS

CONSOLIDATED RESULTS FOR THE FULL YEAR 2013

The following table shows a condensed Income Statement in millions of Pesos (excluding EPS), the margin of net sales that each item represents, as well as the percentage change for the year ended on December 31, 2013, in comparison with the same period of 2012. The information is presented according to the International Financial Reporting Standards (IFRS) and is presented in nominal terms.

	2013	Margin %	2012	Margin %	Change %
NET SALES	$15,718.5	100.0%	$13,519.5	100.0%	16.3%
GROSS INCOME	10,490.8	66.7%	8,764.2	64.8%	19.7%
EBITDA[1]	2,038.2	13.0%	1,608.6	11.9%	26.7%
OPERATING INCOME	1,115.1	7.1%	797.3	5.9%	39.9%
NET INCOME	$663.3	4.2%	$401.8	3.0%	65.1%
EPS[2]	0.9905	N.A.	0.5726	N.A.	73.0%

[1] EBITDA is defined as operating income before depreciation and amortization.
[2] EPS is earnings per share for the last 12 months.

Sales

Net sales increased 16.3% to 15.7 billion pesos in 2013, in comparison with 13.5 billion pesos in the previous year. This increase reflects the growth in sales of the food and beverages segments in Mexico and South America, mainly resulting from the increase in the number of units, both due to openings and acquisitions, as well as a growth of 8.0% in same-store sales. These effects were partly offset by a decrease of 15.2% in the revenues with third parties from the distribution and production segment, mainly due to the merger of Burger King in Mexico and the decrease in same-store sales of the Burger King system.

Growth in brand sales was derived from the **net increase of 250 corporate units** in the last twelve months, as well as the growth in same-store sales from operations in Mexico and South America, mainly as a result of an increase in the average ticket of our brands thanks to different commercial and price strategies implemented, as well as a higher volume of transactions.

16.3% INCREASE IN NET SALES

Cost of Sales

Cost of sales decreased during the 12 months of 2013 in comparison with 2012. The variation of 190 basis points vs. the previous year (2012) is mainly accountable to the sales mix, i.e. the growth of brands at a lower cost percentage, as well as the fact that the sales of DIA to Burger King in property of third parties decreased as a result of the joint venture with Burger King Worldwide.

NET INCREASE OF 250 CORPORATE UNITS

GROSS INCOME OF
66.7%

Gross Profit

During the full-year 2013, **gross income increased** 1.7 billion pesos to 10.5 billion pesos, with a **gross margin of 66.7%** compared to 64.8% recorded in the previous year. The increase of 1.9 percentage points in the gross margin is attributable to the effect on costs due to the appreciation of the peso against dollar in the past 12 months, the price-increase strategy and promotion of key products in some brands, as well as the business mix generated.

Operating Expenses

Operating Expenses (excluding depreciation and amortization) increased 0.9 percentage points as a sales percentage, ranging from 52.9% during the 12 months of 2012 to 53.8% during the same period in 2013. This increase is mainly attributed to the business mix mentioned above, where the units with the highest sales growth are the ones that have a higher expenditure as a percentage of sales, as well as to the increase in the operating cost of the stores, and to a lesser extent to the increase of pre-operating expenses related to the expansion plan. This effect was partially offset by the margin from growth in same-store sales, the operating efficiencies achieved during the year and the increase in the number of units in operation.

EBITDA
INCREASE
26.7%

EBITDA

EBITDA increased 26.7% to 2.0 billion pesos at the end of 2013, in comparison with 1.6 billion pesos during the full-year 2012. The increase of 430 million pesos in EBITDA can be mainly attributed to the increase of 19.7% in gross income, higher same-store sales, the increase in number of units, an improvement in the cost of sales and operating expenses efficiencies. **EBITDA margin increased** 1.1 basis points as a percentage of sales, rising from 11.9% in 2012 to **13.0%** throughout 2013. This improvement in margin is attributable to higher same-store sales, the business mix – in which the units with the highest growth also have a higher EBITDA margin as a percentage of sales –, a higher gross margin thanks to the commercial initiatives and price-strategies implemented by the brands in the portfolio, as well as to the resulting operating improvements and the rise in the exchange rate.

EBITDA MARGIN
13.0%

Operating Income

During the twelve months ended on December 31, 2013, the **operating income increased 40%** equivalent to 317.8 million pesos, closing in 1.1 billion pesos in comparison with 797.3 million pesos in the same period of 2012.

CONSOLIDATED
NET INCOME
658.5
million pesos

Consolidated Net Profit

Mayority net income for 2013 **increased 311 million Pesos** to reach 676 million pesos in comparison with 365 million pesos of the previous year. This increase is mainly attributable to an increase of 318 million pesos in operating income, as well as the positive variation of 26 million pesos in the results of associated companies. Such variations were partially offset by the increase of 21 million pesos in the all-in cost of financing and the increase of 66 million pesos in tax on earnings. Likewise, **consolidated net profit** for 2013 **increased** considerably in comparison with 2012, rising from 401.8 million pesos **to 658.5 million pesos**.

Earnings per Share

Earnings per Share, "EPS", for the twelve months ended on December 31, 2013, **increased to 0.99 pesos** in comparison with 0.57 pesos for the twelve months ended on December 31, 2012.

Results by Segment

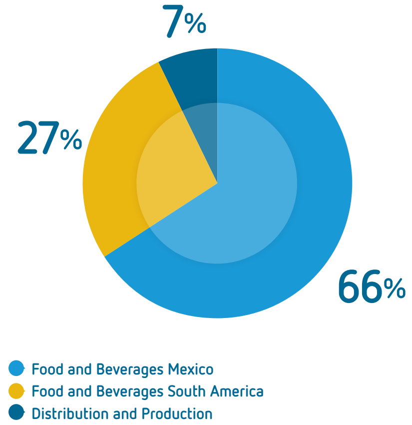
Net sales and EBITDA are shown below by business segment in millions of pesos for the full-years of 2013 and 2012.

Net sales by segment	2013	% Cont.	2012	% Cont.	% Var.
Food and Beverages Mexico	$10,371.3	66.0%	$8,752.2	64.7%	18.5%
Food and Beverages South America	4,219.3	26.8%	3,416.3	25.3%	23.5%
Distribution and Production	4,330.0	27.5%	4,032.4	29.8%	7.4%
Intercompany operations(3)	(3,202.1)	(20.4)%	(2,681.4)	(19.8)%	19.4%

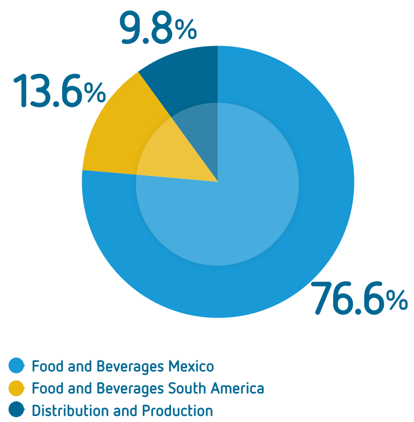
EBITDA by segment	2013	% Cont.	Margin	2012	% Cont.	Margin	% Var.
Food and Beverages Mexico	$1,562.0	76.6%	15.1%	$1,374.2	85.4%	15.7%	13.7%
Food and Beverages South America	277.5	13.6%	6.6%	214.3	13.3%	6.3%	29.5%
Distribution and Production	253.8	12.5%	5.9%	206.8	12.9%	5.1%	22.7%
Others(3)	(55.1)	(2.7)%	N.A.	(186.7)	(11.6)%	N.A.	(70.5)%
Consolidated EBITDA	2,038.2	100.0%	13.0%	1,608.6	100.0%	11.9%	26.7%

(3) For the purposes of presenting comparable information by segment, these operations were included in each of the relevant segments.

SALES PER SEGMENT



EBITDA PER SEGMENT



Food and Beverages Mexico

Full-year sales ending on December 31, 2013 increased 18.5% to 10.4 billion pesos, in comparison with 8.8 billion pesos for the same period of the previous year. The increase of 1.6 billion pesos is attributable mainly to the growth of same-store sales for the segment in Mexico and the opening of 175 corporate units from different brands over the last 12 months.

EBITDA increased 13.7% over the past 12 months ended on December 31, 2013, to 1.6 billion pesos, in comparison with 1.4 billion pesos for the same period of the previous year. This increase is attributable to the margin generated by the increase in same-store sales and the cost improvement derived from the initiatives, commercial and price strategies implemented in different brands, and to a lesser extent, to the effect due to the above-mentioned business mix.

Food and Beverages South America

The Food and Beverages Division of South America represented 26.8% of Alsea's consolidated sales and at the end of the fourth quarter of 2013 was comprised of the operations of Burger King in Argentina, Chile and Colombia, as well as Domino's Pizza Colombia, Starbucks Argentina and Chile, as well as P.F. Chang's in Chile, Argentina and Colombia. At the end of the period there were 283 corporate units and 4 sub-franchise units. This segment had an increase of 23.5% in sales, generating 4.2 billion pesos in comparison with 3.4 billion pesos in the previous year. This increase of 803 million pesos mainly resulted from the opening of 75 corporate units and 4 sub-franchise units in that segment, as well as the increase in same-store sales of some brands in South America, and, to a lesser extent, the inclusion of operations in Starbucks Chile, as of September 2013. These variations were partially offset by the effect of the devaluation of the Argentinean peso.

The Food and Beverages EBITDA for South America for the full-year 2013 increased 29.5% to 278 million pesos, in comparison with 214 million pesos in the same period of 2012. The EBITDA margin for the last 12 months ended on December 31, 2013 showed an increase of 0.3 percentage points in comparison with the same period of the previous year. This increase is attributable to a higher same-store sales margin, economies of scale resulting from the growth in the number of corporate units, operating improvements and efficiencies and, to a lesser extent, a better business mix derived from the acquisition of Starbucks Chile. The above variations were partially offset by the increase in labor expenses at store level and the effect of the devaluation of the Argentinean Peso.

Distribution and Production

Net sales ending on December 31, 2013 increased 7.4% to 4.3 billion pesos, in comparison with 4.0 million pesos for the same period of the previous year. This is attributable to the growth in same-store sales of the brands in Mexico and the growth in the number of units served over the past 12 months, **supplying a total of 1,570 units** at December 31, 2013, in comparison with 1,474 units in the same period of the previous year, which represented an increase of 6.5%. Sales to third parties decreased 15.2% to 1.1 billion pesos, mainly due to the merger of Burger King in Mexico, the decrease of same-store sales of the Burger King system, and, to a lesser extent, to the appreciation of the exchange rate.

EBITDA at the end of the full-year 2013 grew 22.7%. This variation is attributable to the higher margins in the bakery business, resulting from higher volume and lower production costs, as well as operating efficiencies in logistics expenses, in combination with the effect of accessories of the credit balance retrieved related to the VAT of *Distribuidora e Importadora Alsea, S.A. de C.V.* These variations were partially offset by the negative effect of the appreciation of the Mexican Peso, in comparison with the previous year.

Non-operating Results

All-in Cost of Financing

The all-in cost of financing for the twelve months ended on December 31, 2013 increased to 210 million pesos, in comparison with 189 million pesos in the same period of the previous year. This increase of 21 million pesos is accountable to the negative variation of 17 million pesos due to exchange rate result, as well as the increase of 4 million pesos in net interest paid derived from a higher leverage.

Tax on Earnings

The tax on earnings for the full-year 2013 was 285 million pesos, which represents an increase of 66 million pesos in comparison with the previous year, mainly due to the growth of 322 million pesos in the earnings before taxes at December 31, 2013.

CAPITAL INVESTMENTS FOR
3.6
BILLION PESOS

Balance Sheet

Store Equipment, Improvements to Leased Locations and Properties and Pre-Operations

The increase of 2.0 billion pesos in this item resulted from the acquisition of assets, the opening of new units as part of the expansion program over the past 12 months, as well as the acquisitions closed during this period. These effects were partially offset by the amortization and depreciation of assets.

During the twelve months ended on December 31, 2013, Alsea made **capital investments of 3.6 billion pesos**, from which 3.5 billion pesos, representing 97.4% of the total investments, were earmarked for acquisitions, unit openings, equipment refurbishing and remodeling existing stores for the different brands in the company portfolio.

The remaining 94 million pesos were destined for other items, notably the lighting and automation project to reduce energy costs, logistics and improvement projects, as well as software licenses, among other items.

Inventory

Inventories increased 642 million pesos at December 31, 2013. This increase of 91 million pesos, equivalent to 2.7 inventory days, is mainly attributable to the operations of collection of inputs in Argentina, as well as the collection of some inputs as part of the strategy to optimize costs.

Taxes Payable – Net

The decrease in the account Taxes Payable – Net of Taxes Recoverable of 93 million pesos at December 31, 2013 is mainly attributable to the increase in the VAT retrievable.

Suppliers

Our suppliers increased from 1.1 billion pesos at December 31, 2012 to 1.4 billion pesos at December 31, 2013. This variation of millions of pesos mainly resulted from a better negotiation process, which translated into an increase of eight supplier days, which rose from 38 to 46 days over the past 12 months, and to a lesser extent, due to a larger number of units in operation.

Bank Debt and Local Bonds

The company's consolidated net debt rose 2.6 billion pesos in comparison with December 31, 2012, closing at 5.0 billion pesos at December 31, 2013, in comparison with 2.5 billion pesos in the same period of the previous year. The company's consolidated net debt rose 2.8 billion pesos in comparison with December 31, 2012, closing at 4.4 billion pesos at December 31, 2013, in comparison with 1.5 billion pesos in the same period of the previous

92.3%
OF THE DEBT WAS LONG TERM

ROIC INCREASED FROM 8.6% TO 11.7%

ROE WAS 14.5%

year. This increase is mainly due to the debt required to face the acquisition of 100% of Starbucks Mexico, Argentina and Chile, Burger King Mexico, and 25% of Grupo Axo, and to a lesser extent, the company's capital investment requirements. **At December 31, 2013, 92.3% of the debt was long term**, and to the same date 98.9% was denominated in Mexican peso, 0.9% in Argentinean Peso and 0.2% in Chilean Peso.

The following table shows the structure and balance of total debt in millions of pesos at December 31, 2013.

(Figures in million pesos)	Balance to Dec-13	TIIE	Spread	Maturity
Bancomer	$660.00	28-day TIIE	1.15%	06/04/2018
Bancomer	$615.00	28-day TIIE	1.10%	10/07/2018
Santander	$265.00	28-day TIIE	0.90%	07/05/2018
Santander	$100.00	4.32%	0.00%	28/02/2014
Banamex	$97.50	28-day TIIE	0.95%	12/07/2018
Banamex	$770.00	28-day TIIE	0.95%	11/07/2018
Share certificates	$2,488.85	28-day TIIE	0.75%	23/05/2014
Argentinean debt	$48.15	22%	N/A	17/12/2014
Chilean debt	$8.96	0.68%	N/A	13/01/2014
TOTAL	**5,043.61**			

Share Repurchase Program

At December 31, 2013, Alsea closed the year with a balance of zero shares in the repurchase fund. During the 12 months ended on December 31, 2013, we conducted purchase and sale operations totaling 4,044,968 shares, for an approximate amount of 140.9 million pesos.

Financial Ratios

At December 2013, the covenants established in the Company's credit contracts were as follows: the Net Debt to EBITDA ratio for the past 12 months was 2.1x and the twelve-month EBITDA to twelve-month interest paid ratio was 8.4x. **ROIC increased** from 8.6% **to 11.7%** over the past 12 months ended on December 31, 2013. **ROE** for the 12 month ended on December 31, 2013 was **14.5%** in comparison with 10.5% for the same period of the previous year.

Stock Market Indicators	2013	Var %	2012
Book Value per Share	6.21	-5.5%	6.57
EPS (12 months)	0.9905	73.0%	0.5726
Outstanding shares at the close of the period (millions)	687.8	0%	687.8
Price per share at close	40.79	58.2%	25.78

Hedge Profile

The Chief Financial Officer, jointly with the Treasury Manager, manages risk seeking to: mitigate present and future risks, not to divert operating resources and expansion plans, and have certainty regarding the Company's future cash flows, to envisage a debt cost strategy. The instruments will only be used for hedging purposes.

During 2013, hedge derivatives in foreign exchange matured for $146.1 million dollars, at an average exchange rate of 12.76 pesos per dollar. This hedging resulted in an exchange rate profit of $28.1 million Mexican pesos. At December 31, 2013, Alsea has hedges to purchase US Dollars in 2014 for an approximate amount of $16.3 million US dollars, at an average exchange rate of 12.60 pesos per dollar. The foregoing is estimated at an average exchange rate of 13.00 pesos per dollar.

AUDIT COMMITTEE´S ANNUAL REPORT

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

MEXICO CITY, FEBRUARY 11, 2014

In compliance with the provisions of Sections 42 and 43 of the Securities Exchange Act and the Rules of the Audit Committee, I hereby inform you about our activities during the year ending on December 31, 2013. During the performance of our work, we have taken into account the recommendations set out in the Code of Best Practices on Corporate Governance and, in accordance with a work program developed from the Committee Rules, we met at least once every quarter to perform the following activities:

Risk assessment

We reviewed, jointly with the Administration and External and Internal Auditors, critical risk factors that could affect the Company's operations, and determined that they have been adequately identified and managed.

Internal control

We ensured that the Administration, in fulfillment of its responsibilities regarding internal control, had established adequate policies and processes. In addition, we followed up on the comments and observations in this respect made by the External and Internal Auditors in the performance of their work.

External Audit

We recommended that the Board of Directors hire the external auditors for the Group and subsidiaries for the fiscal year 2013. To this end, we made sure of their independence and compliance with the requirements established by law. We jointly analyze their approach and work program.

We maintained ongoing and direct communication to stay informed on the progress of their work, and take note of their comments on their review and the annual financial statement. We were promptly informed of their conclusions and reports on the annual financial statement and implemented their observations and recommendations resulting from their work.

We authorized the fees paid to external auditors for auditing services and other authorized services, making sure that these would not interfere with their independence from the company. Taking into account the Administration's point of view, we evaluated its services for the previous year and stated an evaluation process for the year 2013.

Internal audit

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

In due course, we reviewed and approved its annual program of activities. To that end, Internal Audit participated in the process of identifying risks, determining controls and verifying them.

We received periodic reports regarding the progress of the approved work program, changes that might have occurred and the reasons that caused them.

We followed up on the observations and suggestions made by this area and implemented them appropriately.

Financial Information, Accounting Policies and Third Party Reports

We reviewed together with the people responsible, the process of preparation of quarterly and annual financial statements for the Company and recommended the Board of Directors approving and authorizing their dissemination. As part of this process we took into consideration external auditors' opinions and observations and made sure that

the criteria, accounting and information policies used by the Administration to prepare the financial information were adequate and sufficient and had been applied consistently with those for the previous year. As a consequence, the information presented by the Administration reasonably reflects Alsea's financial situation, operating results and changes in its financial status for the year that ended on December 31, 2013.

We also reviewed the quarterly reports prepared by the Administration to be presented to the shareholders and the general public, verifying that they were prepared using the same accounting criteria used to prepare the annual information. We verified that there is a comprehensive process that provides reasonable confidence as to its contents. In conclusion, we recommend that the Board authorize its publication.

Our review also included reports and any other financial information required by Mexican Regulatory Bodies.

We reviewed and confirmed that during the year 2013 Alsea continued using and implementing the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) to prepare its Financial Statements.

Compliance with regulations, legal aspects and contingencies

We confirm the existence and reliability of the controls established by the Company, to ensure compliance with any various mandatory legal provisions, making sure that they were properly disclosed in the financial information.

We periodically reviewed the various tax, legal and labor contingencies faced by the company, monitoring the efficiency of the identification and follow-up procedure, as well as their proper disclosure and recording.

Administrative Aspects

We held regular meetings with the Administration, to keep informed about the operations of the Company, its relevant and unusual activities and events. We also met with internal and external auditors to discuss their progress of their work and any constrains they might have encountered, and to facilitate any private communications they wished to have with the Committee.

Whenever we deemed it advisable, we requested independent experts to provide support and opinions. Similarly, we had no knowledge of any significant lack of compliance with the operating policies, internal control systems, and accounting records policies.

We held executive meetings with the exclusive participation of Committee Members, during which we reached agreements with and made recommendations to the Administration.

The Chairman of the Audit Committee reported our activities to the Board of Directors on a quarterly basis.

Our work was duly documented in records and prepared for each meeting, which were appropriately reviewed and approved by Committee Members.

Sincerely,

C.P. Ivan Moguel Kuri
Chairman of the Audit Committee

CORPORATE PRACTICES COMMITTEE'S ANNUAL REPORT

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

MEXICO CITY, FEBRUARY 11, 2014

In compliance with Sections 42 and 43 of the Securities Exchange Act and in the name of the Corporate Practices Committee, I present to you our report on the activities we carried out during the year ended December 31, 2013. In the development of our work, we observed the recommendations contained in the Code of Best Practices on Corporate Governance.

To analyze the relevant results of the Company, the Committee held meetings to ensure the adequate follow-up on the agreements reached during the performance of their duties, inviting any company officers deemed advisable.

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

- During this period we did not receive any request for dispensation according to Section 28, subsection III, paragraph f) of the Securities Exchange Act; hence, it was not necessary to make any recommendation in this regard.
- This committee presented and approved the Strategic Plan of Domino's Pizza Mexico, which we recommended to be presented to the Board of Directors for its ratification.
- This committee presented and approved the Business Plan of Starbucks Colombia, which we recommended to be presented to the Board of Directors for its ratification.
- This committee presented and approved the proposal to issue stock certificates, which we recommended to be presented to the Board of Directors for its ratification.
- This committee presented and approved the Investment Plan to acquire 25% of Grupo Axo, S.A.P.I. de C.V.'s equity, which we recommended to be presented to the Board of Directors for its ratification.
- This committee presented and approved the Investment Plan to acquire 100% of Starbucks Argentina and Chile, which we recommended presenting to the Board of Directors for its approval.
- This committee presented and approved the project to acquire Vips, which we recommended to be presented to the Board of Directors for its approval.
- We presented quarterly and accrued results of the Stock Exchange Plan for the year 2013.
- We were presented with the update of the shareholder cost applicable at the end of each quarter of 2013, according to methodology authorized by the Board of Directors.
- We were presented on a quarterly basis with a summary of the risk management operations through "forwards of the exchange rate" (Peso-Dollar) conducted over the year. These operations were executed as authorized; that is, in compliance with the objective of covering the exchange rate risk of the operation based on the authorized budget.
- We were presented with the Strategic Plan 2013-2018, which we recommended to be presented to the Board of Directors for its approval.
- We were presented the 2014 Budget, which we recommended to be presented to the Board of Directors for its approval.

- We were presented with the Compensation Plan for the CEO's Reporting Line, which we recommended to be presented to the Board of Directors for its approval.
- We were presented with the Succession and Talent Development Plans, which we reviewed.
- We were presented with the results of the evaluation of relevant executives in 2013.
- The Corporate Division of Human Resources presented the Compensation Strategy for relevant executives for the year 2014. This Committee recommended the approval of the strategy.
- We were presented with the organizational structure of Alsea 2014, which we recommended to be presented to the Board of Directors for its approval.
- In each and every meeting of the Board of Directors, we presented a report of the activities of the Corporate Practices Committee for its consideration and recommended its ratification and/or approval.

Finally, I would like to mention that as part of our activities, including the preparation of this report, we have always listened to and taken into account the viewpoint of relevant executives, without identifying any notable difference of opinion.

Sincerely,

Corporate Practices Committee
Julio Gutiérrez Mercadillo
Chairman

FINANCIAL STATEMENTS

ALSEA, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated financial statements for the years ended December 31, 2013 and 2012, and Independent Auditors' Report dated February 21, 2014

Contents

Independent auditors' report

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

We have audited the accompanying consolidated financial statements of Alsea, S.A.B. de C.V. and Subsidiaries (the Entity), which comprise the consolidated statements of financial position at December 31, 2013 and 2012, and the consolidated statements of income, of income and other comprehensive income, of changes in stockholders' equity and of cash flows for the years then ended, as well as a summary of the significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

The Entity's Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alsea, S. A.B. de C. V. and its subsidiaries as of December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
A member of Deloitte Touche Tohmatsu Limited

C. P. C. Francisco Torres Uruchurtu
February 21, 2014

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

Consolidated statements of financial position

At December 31, 2013 and 2012
(Figures in thousands of Mexican pesos)

	Notes	2013	2012
ASSETS			
Current assets			
Cash and cash equivalents	6	$ 663,270	$ 932,594
Customers, net	7	360,104	339,481
Value–added tax and other recoverable taxes		369,350	272,254
Other accounts receivable		268,714	196,450
Inventories, net	8	641,880	550,394
Advance payments	9	304,323	184,201
Total current assets		2,607,641	2,475,374
Long–term assets			
Guarantee deposits	10	128,108	110,020
Investment in shares of associated companies	15	788,665	40,296
Store equipment, leasehold improvements and property, net	11	4,610,942	3,924,108
Intangible assets, net	12 and 17	3,263,896	2,418,830
Deferred income taxes	20	982,407	828,965
Total long–term assets		9,774,018	7,322,219
Total assets		$ 12,381,659	$ 9,797,593

	Notes	2013	2012
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Current maturities of long–term debt	18	$ 388,486	$ 396,647
Suppliers		1,408,565	1,129,612
Accounts payable and accrued liabilities		170,862	209,669
Provisions	21	730,727	661,735
Income taxes		360,947	189,749
Taxes arising from tax consolidation	20	10,111	6,885
Total current liabilities		3,069,698	2,594,297
Long–term liabilities			
Long–term debt, not including current maturities	18	2,166,281	2,077,833
Debt instruments	19	2,488,850	–
Other liabilities		64,721	58,787
Taxes arising from tax consolidation	20	15,923	186,569
Employee retirement benefits		72,884	51,210
Total long–term liabilities		4,808,659	2,374,399
Total liabilities		7,878,357	4,968,696
Stockholders' equity	24		
Capital stock		403,339	403,339
Premium on share issue		2,037,390	2,466,822
Retained earnings		1,512,464	1,173,693
Reserve for repurchase of shares		569,271	564,201
Other comprehensive income items		(251,037)	(87,347)
Stockholders' equity attributable to the controlling interest		4,271,427	4,520,708
Non–controlling interest	25	231,875	308,189
Total stockholders' equity		4,503,302	4,828,897
Total liabilities and stockholders' equity		$ 12,381,659	$ 9,797,593

See accompanying notes to the consolidated financial statements.

Mr. Fabián Gosselin Castro
General Director

Mr. Diego Gaxiola Cuevas
Administration and Financial Director

Mr. Alejandro Villarruel Morales
Corporate Controller

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

Consolidated statements of income

For the years ended December 31, 2013 and 2012
(Figures in thousands of Mexican pesos)

	Note	2013	2012
Net sales	27	$ 15,718,543	$ 13,519,506
Cost of sales		5,227,739	4,755,290
Leases		1,262,533	1,066,583
Depreciation and amortization		923,121	811,298
Other operating costs and expenses		7,212,874	6,098,830
Other income, net	29	(22,799)	(9,804)
Interest income		(39,044)	(47,043)
Exchange loss (gain), net		8,125	(8,719)
Interest expenses		241,389	245,104
		904,605	607,967
Equity in results of associated companies	15	43,582	12,978
Income before income taxes		948,187	620,945
Income taxes	20	284,867	219,147
Consolidated net income		$ 663,320	$ 401,798
Net income (loss) for the year attributable to:			
Controlling interest		$ 681,014	$ 364,918
Non–controlling interest		$ (17,694)	$ 36,880
Basic and diluted net earnings per share (cents per share)	26	$ 0.99	$ 0.57

See accompanying notes to the consolidated financial statements.

Mr. Fabián Gosselin Castro
General Director

Mr. Diego Gaxiola Cuevas
Administration and Financial Director

Mr. Alejandro Villarruel Morales
Corporate Controller

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

Consolidated statements of income and other comprehensive income

For the years ended December 31, 2013 and 2012
(Figures in thousands of Mexican pesos)

	2013	2012
Consolidated net income	$ 663,320	$ 401,798
Items that may be reclassified subsequently to income:		
Valuation of financial instruments, net of income taxes	–	(9,963)
Exchange differences on translating foreign operations	(164,487)	(114,134)
	(164,487)	(124,097)
Total comprehensive income for the period, net of income taxes	$ 498,833	$ 277,701
Comprehensive income (loss) for the year attributable to:		
Controlling interest	$ 516,527	$ 240,821
Non–controlling interest	$ (17,694)	$ 36,880

See accompanying notes to the consolidated financial statements.

Mr. Fabián Gosselin Castro
General Director

Mr. Diego Gaxiola Cuevas
Administration and Financial Director

Mr. Alejandro Villarruel Morales
Corporate Controller

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

Consolidated statements of changes in stockholders' equity

For the years ended December 31, 2013 and 2012
(Figures in thousands of Mexican pesos)

	Contributed capital			Retained earnings			Other comprehensive income items				
	Capital stock	Premium on issuance of share	Repurchased shares	Reserve for repurchase of shares	Legal reserve	Retained earnings	Valuation financial instruments	Effect of conversion of foreign operations	Total controlling interest	Non–controlling interest	Total stockholders' equity
Balances at January 1, 2012	$ 368,362	$ 1,092,047	$ (5,901)	$ 383,903	$ 93,611	$ 1,025,156	$ 9,166	$ 27,584	$ 2,993,928	$ 298,803	$ 3,292,731
Repurchase of shares (Note 24)	–	1,090	(291)	(12,860)	–	(1,090)	–	–	(13,151)	–	(13,151)
Sales of shares (Note 24)	–	–	6,192	193,158	–	–	–	–	199,350	–	199,350
Transfer of legal reserve (Note 24)	–	–	–	–	7,125	(7,125)	–	–	–	–	–
Purchase of non–controlling interest (Note 1j, 16 and 25)	–	(15,262)	–	–	–	–	–	–	(15,262)	(494)	(15,756)
Stock dividends declared (Note 24)	8,233	300,669	–	–	–	(308,902)	–	–	–	–	–
Dividends declared in cash by a subsidiary (Note 24)	–	–	–	–	–	–	–	–	–	(27,000)	(27,000)
Placement of shares (notes 3h and 24)	26,744	1,088,278	–	–	–	–	–	–	1,115,022	–	1,115,022
Comprehensive income	–	–	–	–	–	364,918	(9,963)	(114,134)	240,821	36,880	277,701
Balances at December 31, 2012	403,339	2,466,822	–	564,201	100,736	1,072,957	(797)	(86,550)	4,520,708	308,189	4,828,897
Repurchase of shares (Note 24)	–	–	(1,011)	(67,927)	–	–	–	–	(68,938)	–	(68,938)
Sales of shares (Note 24)	–	–	1,011	72,997	–	–	–	–	74,008	–	74,008
Purchase of non–controlling interest (Note 25)	–	(429,262)	–	–	–	–	–	–	(429,262)	(28,020)	(457,282)
Dividends declared in cash (Note 24)	–	–	–	–	–	(343,880)	–	–	(343,880)	(30,600)	(374,480)
Other movements	–	(170)	–	–	–	1,637	797	–	2,264	–	2,264
Comprehensive income	–	–	–	–	–	681,014	–	(164,487)	516,527	(17,694)	498,833
Balances at December 31, 2013	$ 403,339	$ 2,037,390	$ –	$ 569,271	$ 100,736	$ 1,411,728	$ –	$ (251,037)	$ 4,271,427	$ 231,875	$ 4,503,302

See accompanying notes to the consolidated financial statements.

Mr. Fabián Gosselin Castro
General Director

Mr. Diego Gaxiola Cuevas
Administration and Financial Director

Mr. Alejandro Villarruel Morales
Corporate Controller

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

Consolidated statements of cash flows

For the years ended December 31, 2013 and 2012
(Figures in thousands of Mexican pesos)

	Note	2013	2012
Operating activities:			
Consolidated net income		$ 663,320	$ 401,798
Adjustment for:			
Income taxes		284,867	219,147
Equity in results of associated companies		(43,582)	(12,978)
Interest expense		241,389	245,104
Interest income		(39,044)	(47,043)
Loss on disposal of store equipment and property		24,386	64,200
Provisions		68,993	90,005
Depreciation and amortization		923,121	811,298
Cost of purchase of non–controlling interest		–	(11,748)
Effect of valuation of financial instruments		–	(9,963)
		2,123,450	1,749,820
Changes in working capital			
Customers		(15,629)	(79,917)
Recoverable taxes		–	(758)
Other accounts receivable		(84,317)	(23,263)
Inventories		(82,506)	(100,418)
Advance payments		(102,645)	(38,332)
Guarantee deposits		(18,088)	(23,029)
Suppliers		264,222	80,640
Taxes paid		(456,397)	(220,337)
Other liabilities		(41,453)	85,066
Labor obligations		21,674	19,460
Net cash flows provided by operating activities		1,608,311	1,448,932
Cash flows from investing activities:			
Interest collected		39,044	47,043
Store equipment, leasehold improvements and property		(1,127,548)	(921,123)
Intangible assets		(339,428)	(220,542)
Reimbursement of guarantee deposit		–	2,262,800
Acquisitions of business, net of cash acquired	1 and 16	(1,764,508)	(1,765,000)
Net cash flows used in investing activities		(3,192,440)	(596,822)

	Note	2013	2012
Cash flows from financing activities:			
Bank loans	18	2,538,686	75,092
Repayments of loans		(2,449,815)	(750,168)
Issuance of debt instruments	1 and 19	2,488,850	–
Repayments of debt instrument		–	(1,000,000)
Increase in capital stock	24	–	1,115,022
Interest paid		(241,389)	(245,104)
Dividends paid		(343,880)	–
Other items		–	(27,000)
Acquisition of non–controlling interest		(683,441)	(15,262)
Repurchase of shares		(67,927)	(13,151)
Sales of shares		72,997	199,350
Net cash flows provided by (used in) by financing activities		1,314,081	(661,221)
Net (decrease) increase in cash and cash equivalents		(270,048)	190,889
Exchange effects on value of cash		724	2,326
Cash and cash equivalents:			
At the beginning of the year		932,594	739,379
At end of year		$ 663,270	$ 932,594

See accompanying notes to the consolidated financial statements.

Mr. Fabián Gosselin Castro
General Director

Mr. Diego Gaxiola Cuevas
Administration and Financial Director

Mr. Alejandro Villarruel Morales
Corporate Controller

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

Notes to the consolidated financial statements

For the years ended December 31, 2013 and 2012
(Figures in thousands of Mexican pesos)

1. Activity, main operations and significant events

Alsea, S.A.B. de C.V. and Subsidiaries (Alsea or the Entity) was incorporated as a variable income stock company on May 16, 1997 in Mexico. The Entity's domicile is Paseo de la Reforma No. 222, tercer piso, Col. Juárez, Delegación Cuauhtémoc C.P. 06600, México, D.F.

The Entity was incorporated for a period of 99 years, starting as from the date on which the respective deed was signed, which was April 7, 1997.

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

Operations

Alsea is mainly engaged in operating fast food restaurants or "QSR" and cafeteria and casual dining units or "Casual Dining". The brands operated in Mexico by the Entity are Domino's Pizza, Starbucks, Burger King, Chili's Grill & Bar, California Pizza Kitchen, P.F Chang's and Pei Wei Asian Diner, and it has operated the Italianni's brand beginning in March 2012. In order to operate its multi–units, the Entity has the support of its shared service center, which includes the supply chain through Distribuidora e Importadora Alsea, S.A. de C.V. (DIA), real property and development services, as well as administrative services (financial, human resources and technology). The Entity operates the Burger King and Starbucks. brands in Chile and Argentina. In Colombia, it has operated the Domino's Pizza and Burger King brands since 2008. In May 2011, Alsea entered into an agreement with PFCCB International, Inc. for the exclusive development and operation of P.F. Chang's China bistro in Argentina, Colombia and Chile, the latter country in which it opened its first P.F. Chang's unit in 2012.

Significant events

a. *Acquisition of Starbucks operations in Mexico, Chile and Argentina.–* As part of its expansion plan, in July 2013 Alsea entered into an agreement to acquire 100% of the operations of the Starbucks coffee chain in Chile and Argentina. Such acquisition comprises the remaining 82% of Starbucks Coffee Chile and the remaining 18% of Starbucks Coffee Argentina. With such acquisition, Alsea will control the 66 Starbucks stores in Argentina and the 44 stores in Chile (see Note 16 and 25). In September 2013, Alsea finalized the acquisition of the remaining shares of Starbucks Coffee Chile, S.A. de C.V., as from which date it has consolidated the financial information.

   Additionally, in April 2013, Alsea acquired from Starbucks Coffee International ("SCI", an affiliate of the Starbucks Coffee Company) the remaining 18% of Café Sirena, S.A. de C.V. (Café Sirena), a subsidiary created by both entities in Mexico. As a result of that acquisition, Alsea will control 100% of operations in Mexico (see Note 25). Additionally, Alsea committed to a new openings plan that contemplates approximately 50 units per year over the next five years. The parties agreed to review continuity of a contractual expansion plan after that period has elapsed.

   In June 2013, SCI signed an agreement to develop the brand in the Colombian market through an association between Alsea (70%) and Nutressa (a Colombian company – 30%), whereby a commitment is made to open 51 stores in the following 5 years.

b. *Acquisition of 25% of Grupo Axo, S.A.P.I de C.V.–* In June 2013, the Entity formalized the acquisition of 25% of the shares of Grupo Axo, S.A.P.I. de C.V. (Grupo Axo), a leader in sales of international brands of clothes, cosmetics and household appliances.

   Grupo Axo has more than 2,200 points of sale inside a number of department stores in Mexico. It has 116 of its own stores and it carries the following brands: Tommy Hilfiger, Coach, Guess, Rapsodia, Thomas Pink, Brooks Brothers, Marc Jacobs, Etro, Emporio Armani, Brunello Cucinelli, Theory, Kate Spade Express, Crate & Barrel and VSBA (Victoria's Secret Bath Accessories (see Note 15)).

c. *Placement of debt instruments in the amount of $2,500,000.–* In June 2013, Alsea concluded the placement of debt instruments worth $2,500,000. Those debt instruments are for a five–year term, maturing in June 2018, and bear interest at the 28–day TIIE rate (Mexican Interbank Offering rate) plus 0.75 percentage points.

   This is the first issue under the debt instrument program, which was approved on April 25, 2013 by the Board of Directors for issuances up to $3,500 million.

d. *Acquisition of the master franchise of Burger King in Mexico.–* In April 2013, Alsea acquired the master franchise rights to the Burger King restaurants in México, S.A. de C.V. ("BKM"), pursuant to a strategic association agreement signed between Alsea and Burger King Worldwide Inc. ("BKW"). BKM, a subsidiary of BKW in Mexico was merged with Operadora de Franquicias Alsea S.A. de C.V. ("OFA"), a subsidiary of Alsea, a result of which Alsea holds an 80% stake in OFS with the remaining 20% held by BKW. The Entity's management has assessed the terms of the above agreement and strategic partnership concluding that it continues to exercise control over OFA, both before and after the transaction, such that the financial information of BKM has been consolidated in the accompanying consolidated financial statements, as from the closing date of transaction.

   Additionally, as part of the master plan for development of the franchise, Alsea committed to a plan for new openings that contemplates opening 175 units the next five years. The parties agreed to review the continuity of a contractual expansion plan after that period has elapsed (see accounting effects in Note 16).

e. *Acquisition of VIPS.–* In September 2013, Alsea reached an agreement with Wal–Mart de México, S.A.B. de C.V. (Grupo Wal–Mart) to acquire 100% of VIPS, the Grupo Wal–Mart restaurant division, for a total of $8,200,000, which will be financed with debt.

   VIPS operations include a total of 362 restaurants, of which 263 are of the "Vips" brand, 90 are "El Portón" brand, 7 are "Ragazzi" brand and two are "La Finca" brand. Those operations also include: I) the rights to intellectual property over the four brands, the menus, development of the product, the operating processes and other items; II) the acquisition of 18 real property assets; III) the buildings of 214 units; and IV) an administrative office dedicated to the standardization of products, bulk purchases, the centralization of deliveries by suppliers and the production of desserts, sauces and food dressings. The transaction included the acquisition of Operadora VIPS, S. de R.L. de C.V. (OVI) and Arrendadora de Restaurantes, S. de R.L. de C.V. (ARE), as well as the transfer of personnel who provide services to VIPS and that at the date of the transaction worked in different Grupo Wal–Mart service companies; the transfer became effective as of August 2013 and the personnel were transferred to Servicios Ejecutivos de Restaurantes, S. de R.L. de C.V. (SER) and Holding de Restaurantes, S. de R.L. de C.V. (HRE), which are newly created companies. On October 28, 2013, the Alsea shareholders approved the acquisition of VIPS and the close of such transaction is subject to receiving the respective regulatory authorizations and to meeting certain closing conditions. At December 31, 2013 no accounting effects have arisen in relation to that transaction.

f. *Acquisition of the exclusive rights to develop the P.F. Chang's China Bistro in Brazil –* In January 2013, the Entity signed a Development and Operation agreement for the exclusive rights to develop the P.F. Chang's China Bistro brand in Brazil. The agreements contemplate the opening of 30 units in the next 10 years. P.F. Chang's is the leading brand in the Casual Asian Food segment in the US with more than 225 operating units. It currently has points of sale in Mexico, Puerto Rico, Canada, Kuwait, Beirut, Chile, Hawaii, the Philippines and the United Arab Emirates. In order to enter the Brazilian market with the P.F. Chang's China Bistro brand, a development and expansion strategy has been designed based on the successful business model used to operate the brand portfolio in South America. That model has made it possible to position Alsea as the leading Casual and Fast–food operator in Latin America. With Brazil operations as the new path for growth, the Entity will work towards generating greater diversification and profitability of its portfolio.

g. *Signing of the exclusive rights to develop and operate the Cheesecake Factory® restaurants in Mexico –* Alsea signed an agreement to the exclusive rights to develop and operate the The Cheesecake Factory® restaurants in Mexico and Chile, which also contemplates the option for Argentina, Brazil, Colombia and Peru, thus becoming the strategic partner of the prestigious brand in the entire region.

The agreement initially contemplates 12 openings between Mexico and Chile in the following eight years with 10–year agreements per restaurant, and the right to extend that period for an additional 10 years.

The Cheesecake Factory® chain is considered the best seller per unit in its category. The brand focuses on providing customers with top quality products and services. Its operations include 162 restaurants under the The Cheesecake Factory® brand in over 35 states of the US operating under a franchise license.

h. *Capital issue. –* In December 2012, Alsea issued stock worth $1,150 million pesos, which included the over–allotment option. The issue was carried out in the Mexican market through the Mexican Stock Exchange (MSE) and in foreign markets through a private offer made in accordance with Regulation "S" of the US Securities Act of 1933. The final placement price according to the book closing was 21.50 pesos per share, which resulted in the placement of approximately 53.49 million shares. As a result of the issue and the exercise of the over–allotment option, Alsea's subscribed and paid in capital was comprised of 687,759,054 (six hundred and eighty seven million, seven hundred and fifty nine thousand, fifty four) Class I, single series, common shares, with no par value. The Entity used the resources derived from this issue to prepay the debt instrument with ticker code ALSEA'11, which matures in 2014, as a result of which the Entity's leverage decreased (Net Debt to EBITDA) from 1.9x to 1.2x based on figures at September 2012 (see Note 24).

i. *Early full amortization of the "ALSEA 11" debt instrument. –* In May 2011, Alsea placed debt instruments for a total of $1,000 million in the Mexican market (the "ALSEA 11" debt instrument). The resources obtained from that issue were used mainly to prepay the debt instruments issued in December 2009 and March 2010 for $300 million and $400 million, respectively.

In December 2012, the Entity prepaid the total amount the ALSEA 11 debt instrument. The payment was for approximately $1,004.7 million, which included accrued interest. Payment was made using part of the resources obtained from a capital issuance carried out by the Entity, which helped to improve the cost of the debt and the maturity profile (see Note 19).

j. *Acquisition of 35% of Grupo Calpik, S.A.P.I. de C.V. and of 10.64% of Panadería y Alimentos para Food Service, S.A de C.V.. –* On June 2012, the Entity formalized the acquisition of the remaining 35% of shares of Grupo Calpik, a company that holds the exclusive rights to develop and operate California Pizza Kitchen restaurants in Mexico. The transaction gave rise to a charge to stockholders' equity of $15,262. Additionally, in October 2012, Alsea acquired the remaining 10.64% of the shares of Panadería y Alimentos para Food Service, a company that distributes food brands mainly to Café Sirena, S de R.L. de C.V., which operates Starbucks in Mexico. The transaction gave rise to a decrease in the Entity's non–controlling interest of $15,172 and $11,748, respectively (see Note 25).

k. *Agreement to acquire Italianni's restaurants and the exclusive rights to develop and operate that brand of restaurants in Mexico. –* The Italianni's acquisition concluded in February 2012 at a final price of $1,765 million.

Italianni's is the leading Italian food chain in Mexico with more than 52 units in over 20 states. The brand is known for offering top quality products and services thanks to its experienced operating team and a philosophy based on high service values (see Note 16).

2. Bases for presentation

a. *New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements*

In the current year, the Entity has applied a number of new and revised International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), that are mandatorily effective beginning on January 1, 2013.

New and revised Standards on consolidation, joint arrangements, associates and disclosures.

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements and IAS 28* (as revised in 2011) *Investments in Associates and Joint Ventures*. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first–time application of the standards.

Those standards had no significant effects at December 31, 2013, except the requirement to make additional disclosures, which are included in the accompanying consolidated financial statements. However, the standards that are applicable to the Entity are as follows:

IFRS 10 Consolidated financial statements

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC–12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Some guidance included in IFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the entity.

At December 31, 2013, the transition provisions set forth in IFRS 10 gave rise to no significant changes in the Entity.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non–financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share–based payment transactions that are within the scope of IFRS 2 *Share–based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from January 1, 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Entity has not made any new disclosures required by IFRS 13 for the 2012 comparative period.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

IAS 19 Employee benefits – (revised in 2011)

In the current year, the Entity applied IAS 19, *Employee Benefits* – (revised in 2011) and the related amendments for the first time.

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets.

The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19, which is calculated by applying the discount rate to the net defined benefit liability or asset. Those changes have not given rise to significant effects.

b. *New and revised IFRS in issue but not yet effective*

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

IFRS 9, *Financial Instruments* [3]
Amendments to IFRS 9 and IFRS 7, Mandatory effective date *of IFRS 9 and Transition Disclosures* [2]
Amendments to IFRS 10 and IFRS 12 and IAS 27, *Investment Entities* [1]
Amendments to IAS 32, – *Offsetting Financial Assets and Financial Liabilities* [1]

[1] Effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.
[2] Effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.
[3] Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

The Entity's management estimates that application of those new and revised standards will have no effects on the consolidated financial statements.

3. Significant accounting policies

a. *Statement of compliance*

The Entity's consolidated financial statements have been prepared in accordance with the IFRS issued by the IASB.

b. *Basis of measurement*

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

i. Historical cost
The historical cost is generally based on the fair value of the consideration paid in exchange for goods or services.

ii. Fair value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share–based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

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

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

c. *Basis of consolidation*

The consolidated financial statements include those of the Entity and the subsidiaries over which it holds control. Control is obtained when the Entity:

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

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

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

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

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

All intercompany balances and operations have been eliminated in the consolidation.

Changes in the Entity's ownership interest in existing subsidiaries

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

When the Entity loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non–controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Entity had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

d. *Business combinations*

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

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

– Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively;

– Liabilities or equity instruments related to share–based payment arrangements of the acquiree or share–based payment arrangements of the Entity entered into to replace share–based payment arrangements of the acquireeare measured in accordance with IFRS 2 at the acquisition date; and

– Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non–current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

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

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

When the consideration transferred by the Entity in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition–date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

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

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

e. *Goodwill*

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

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

A cash–generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash–generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

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

f. *Investment in associates and joint businesses*

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

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

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Entity's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Entity's share of losses of an associate or a joint venture exceeds the Entity's interest in that associate or joint venture (which includes any long–term interests that, in substance, form part of the Entity's net investment in the associate or joint venture), the Entity discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

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

The Entity discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Entity retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Entity measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Entity accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

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

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

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

g. *Revenue recognition*

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

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

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

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

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

h. *Foreign currency transactions*

In order to consolidate the financial statements of foreign operations carried out independently from the Entity (located in Argentina, Chile and Colombia) and that comprise 27% and 25% of consolidated net income and 21% and 16% of the total consolidated assets at December 31, 2013 and 2012, respectively, companies apply the policies followed by the Entity. The financial statements of consolidating foreign operations are converted to the reporting currency by initially identifying whether or not the functional and recording currency of foreign operations is different, and subsequently converting the functional currency to the reporting currency.

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

– Assets and liabilities, both monetary and non–monetary, are converted at the closing exchange rates in effect at the reporting date of each statement of financial position.

– Income, cost and expense items of the statement of income are converted at the average exchange rates for the period, unless those exchange rates will fluctuate significantly over the year, in which case operations are converted at the exchange rates prevailing at the date on which the related operations were carried out.

– Stockholders' equity is converted at historical exchange rates, i.e., at the rates in effect on the date on which capital contributions were made or earnings were incurred.

– All conversion differences are recognized as a separate component under stockholders' equity and form part of other comprehensive income items.

i. *Employee benefits*

Direct employee benefits are valued in proportion to the services rendered, considering current salaries, and they are recognized under liabilities as they accrue. This item includes mainly employees statutory profit sharing (PTU) payable, paid absences, such as vacations and vacation premiums, and incentives.

Other compensation to which personnel is entitled is recognized in income in the year in which it accrues.

Statutory employee profit sharing is recorded in income in the year in which it accrues and it is shown under operating expenses in the statement of income.

Statutory employee profit sharing is determined based on the tax profit in accordance with Section I of article 10 of the Mexican Income Tax Law.

j. *Income taxes*

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

– Current tax

Current income taxes, calculated as the higher of the regular Mexican income tax ("ISR") and, through December 31, 2013, the Business Flat Tax ("IETU"), are recorded in the results of the year in which they are incurred.

– Deferred income tax

Until December 31, 2013, in recognizing deferred taxes, the Entity determines whether or not, based on its financial projections, it will incur ISR or IETU and it recognizes deferred taxes on that basis (see Note 20). Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legal right to offset short–term assets vs. short–term liabilities and when they relate to income taxes payable to the same tax authorities and the Entity has the intention of liquidating its assets and liabilities on net bases.

– Current and deferred tax for the year

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

k. *Store equipment, leasehold improvements and property*

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

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

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

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

Financing costs directly attributable to the acquisition, construction or production of an asset that necessarily requires a substantial period of time to get it ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other financing costs are accounted for as expenses for the period in which they are incurred. Financing costs include interest and other costs incurred in relation to loan agreements signed by the Entity. In the years ended December 31, 2013 and 2012, the Entity has not capitalized financing costs under the value of assets, since did not have any qualifying assets or financing for purchase or construction of assets.

The Entity does not maintain a policy of selling fixed assets at the end of their useful lives. Instead, in order to protect its image and the Alsea brands, those assets are destroyed or in some cases sold as scrap. The use or lease of equipment outside the provisions of the franchise agreements is subject to sanctions. Additionally, given the high costs of maintenance or storage required, those assets are not used as spare parts for other brand stores.

l. *Intangible assets*

1. Intangible assets acquired in a business combination

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

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

2. Intangible assets acquired separately

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

Brands	Country	Year of expiration
Domino's Pizza	Mexico	2025
	Colombia	2016
Starbucks Coffee	Mexico	2037
	Argentina	2027
	Colombia	2033
	Chile	2027
Burger King	Mexico, Argentina, Chile and Colombia	Depending on opening dates
Chili's Grill & Bar	Mexico	2015
California Pizza Kitchen	Mexico	2022
P.F. Chang's	Mexico	2019
	Argentina, Chile and Colombia [2]	2021
Pei Wei	Mexico [3]	2021
Italianni's	Mexico [1]	2031

[1] The term for each store under this brand is 20 years as of the opening date, with the right to a 10 year extension.
[2] The term for each store under this brand is 10 years as of the opening date, with the right to an additional 10 year extension.
[3] Term of 10 years with the right to an extension.

The Entity has affirmative and negative covenants under the aforementioned agreements, the most important of which are carrying out capital investments and opening establishments. At December 31, 2013 and 2012, the Entity has fully complied with those obligations.

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

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

m. *Impairment in the y value of long–lived assets, equipment, leasehold improvements, properties, and other intangible assets*

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash–generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash–generating units, or otherwise they are allocated to the smallest group of cash–generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If it is estimated that the recoverable amount of an asset (or cash generating unit) is lower than its carrying value, the carrying value of the asset (or cash generating unit) is reduced to its recoverable amount. Impairment losses are immediately recognized in income. The Entity performs annual impairment tests to identify indications of impairment.

n. *Inventories and cost of sales*

Inventories are valued at the lower of cost or net realizable value. Costs, including a portion of fixed and variable indirect costs, are assigned to inventories through the most appropriate method for the specific type of inventory. In assigning the unit cost of inventories, the Entity uses the average cost method (AC).

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

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

o. *Leases*

Determination of whether an agreement constitutes or includes a lease is based on the substance of the agreement at the date on which it is signed, if compliance with such agreement depends on the use of one or more specific assets, or if the agreement awards the right to use such assets, even when such right is not explicitly specified in the agreement.

Financial leases whereby substantially all risks and benefits inherent to ownership of the leased good are transferred to the Entity are capitalized at the start of the lease period, at the lower of the fair value of the leased property or the present value of the minimum lease payments. Lease payments are distributed between the financial charges and the reduction of the lease obligation so that a constant ratio of interest is incurred on the balance of the lease obligation. Financial charges are recognized as interest expense in the statement of income.

Leased assets are depreciated over their useful lives. However, if there is no reasonable certainty that the Entity will obtain ownership at the end of the lease term, the asset is depreciated over the lower of its estimated useful life or the lease term.

Operating lease payments are recognized as operating expenses using the straight line method over the lease term, except when another systematic apportionment base is more appropriate for showing the pattern of lease benefits for the user. Contingent lease payments are recognized as expenses in the periods in which they are incurred.

p. *Advance payments*

Advance payments include advances for purchase of inventories, property, store equipment, leasehold improvements and services that are received in the twelve months after the date of the statement of financial position and are incurred in course of regular operations.

q. *Provisions*

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

The amount recorded as a provision is the best estimation of the amount required to settle the present obligation at the end of the period being reported, considering the risks and uncertainties surrounding the obligation. When a provision is valued using the cash flows estimated to settle the present obligation, the carrying value is shown at the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered by a third party, an account receivable is recorded as an asset provided that it is virtually certain that the payment will be received and the amount of the account receivable can be reliably measured.

Provisions are classified as current or non–current based on the estimated period of time estimated for settling the related obligations.

<u>Contingent liabilities acquired as part of a business combination</u>

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

r. *Financial instruments*

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

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

s. *Financial assets*

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

1. <u>Effective interest method</u>

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

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

2. <u>Financial assets at FVTPL</u>

Financial assets are classified as of FVTPL when the financial asset is either held for trading or it is designated as of FVTPL.

A financial asset is classified as held for trading if :

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

A financial asset other that a financial asset held for trading may be designated as of FVTPL upon initial recognition, if:

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

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

3. Loans and receivables

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

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

4. Impairment of financial assets

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

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

5. Derecognition of financial assets

The Entity stops recognizing a financial asset only when the contractual rights over the cash flows of the financial asset expire and the risks and rewards of ownership of the financial asset are transferred.

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

t. *Financial liabilities and equity instruments*

1. Classification as debt or equity

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

2. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Entity's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Entity's own equity instruments.

3. Financial liabilities

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

4. Other financial liabilities

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

5. Derecognition of financial liabilities

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

u. *Derivative financial instruments*

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

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

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

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

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

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

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

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

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

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

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

Markets and counterparties: Derivative financial instruments are contracted in the local market under the over the counter (OTC) mode. Following are the financial entities that are eligible to close operations in relation to the Entity's risk management: BBVA Bancomer S.A., Banco Nacional de México, S. A., Banco Santander, S. A., Barclays Bank México S. A., Deutsche Bank AG, Goldman, Sachs Paris Inc. Etcie., HSBC México S. A., Merril Lynch Capital Services Inc., Morgan Stanley Capital Services Inc., and UBS AG.

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

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

Polices for designating calculation and valuation agents

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

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

4. Critical accounting judgments and key sources for estimating uncertainties

In applying the Entity's accounting policies, which are described in Note 3, Management is required to make certain judgments, estimates and assumptions on the amounts of the carrying value of assets and liabilities included in the financial statements. The related estimates and assumptions are based on experience and other factors considered to be relevant. Actual results could differ materially from those estimates.

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

a. *Critical judgments for applying the accounting policies*

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

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

Note 16 indicates that OFA is one of the Entity's subsidiaries. Based on the contractual agreements signed by the Entity and other investors, the Entity is empowered to appoint and remove most of the members of the board of directors of OFA, which has the power to control the relevant operations of OFA. Therefore, the Entity's management concluded that the Entity has the capacity to unilaterally control the relevant activities of OFA and therefore it has control over OFA.

b. *Key sources of estimation uncertainty*

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

1. Impairment of long–lived assets

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

2. Useful life of store equipment, leasehold improvements and properties

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

3. Income tax valuation

The Entity recognizes net future tax benefits associated with deferred income tax assets based on the probability that future taxable income will be generated against which the deferred income tax assets can be utilized. Evaluating the recoverability of deferred income tax assets requires the Entity to prepare significant estimates related to the possibility of generating future taxable income. Future taxable income estimates are based on projected cash flows from the Entity's operations and the application of the existing tax laws in Mexico. The Entity's capacity to realize the net deferred tax assets recorded at any reporting date could be negatively affected to the extent that future cash flows and taxable income differ significantly from the Entity's estimates.

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

4. Intangible assets

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

5. Fair value measurements and valuation processes

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

In estimating the fair value of an asset or liability, the Entity uses market–observable data to the extent it is available. When level 1 inputs are not available, the Entity engages third party qualified appraisers to perform the valuation. The valuation committee works closely with the qualified external appraiser to establish the appropriate valuation techniques and inputs to the model. Every three months, the Financial Director reports the findings of the valuation committee to the Entity's board of directors to explain the causes of fluctuations in the fair value of assets and liabilities.

Information about the valuation techniques and inputs used in the determining the fair value of various assets and liabilities are disclosed Note 23 i.

6. Contingencies

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

5. Non–monetary transactions

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

As mentioned in Note 24, in April 2012, Alsea declared a dividend payment of $308,902 in shares by capitalizing the corresponding amount of the after–tax earnings account.

The Entity acquired 82% of Starbucks Coffee Chile, S.A. (Starbucks Chile) and formalized the merger of OFA and Burger King Mexicana, S.A de C.V. ("BKM"), whereby the Entity also acquired 28.1% of the shares of OFA held by BKW, with which Alsea's final shareholding in OFA is 80% and in BKW is 20%. The breakdown of those acquisitions and the consideration paid in shares and assumed liabilities are shown in Note 16.

6. Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, the cash and cash equivalents caption includes cash, banks and investments in money market instruments. The cash and cash equivalents balance included in the statement of financial position and the statement of cash flows at December 31, 2013 and 2012 is comprised as follows:

	2013	2012
Cash	$ 545,708	$ 329,841
Investments with original maturities of under three months	117,562	602,753
Total cash and cash equivalents	$ 663,270	$ 932,594

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

7. Accounts receivable from customers

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

At December 31, 2013 and 2012, the customer balance is comprised as follows:

	2013	2012
Franchises	$ 213,231	$ 164,053
Credit card	110,442	101,310
Other	90,505	100,442
	414,178	365,805
Allowance for doubtful accounts	(54,074)	(26,324)
	$ 360,104	$ 339,481

The average credit term for the sale of food, beverages, containers, packaging, royalties and other items to owners of sub–franchises is from eight to 14 days. No interest charges are made on accounts receivable to customers in the first 14 days after billing is issued. After that date, late–payment interest is calculated at the the Mexican Interbank Equilibrium Rate (TIIE) plus 5 points x 2% per year on the unpaid balance at the date of settlement.

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

	2013	2012
15–60 days	$ 37,376	$ 36,540
60–90 days	12,327	7,118
More than 90 days	73,615	55,844
Total	$ 123,318	$ 99,502
Average time overdue (days)	77	93

The allowance for doubtful account balances relates to amounts owed by franchisees. Amounts recognized primarily for this item amount to $54,074 and $26,324 in 2013 and 2012, respectively.

Credit risk concentration is limited because the customer base is large and dispersed, and the risk of default by customers in relation to services and supply of food is controlled and supported by a service and/or master franchise agreement.

8. Inventories

At December 31, 2013 and 2012, inventories are as follows:

	2013	2012
Food and beverages	$ 491,256	$ 455,960
Containers and packaging	57,682	46,265
Other	99,403	56,251
Obsolescence allowance	(6,461)	(8,082)
Total	$ 641,880	$ 550,394

Inventories recognized under cost of sales for inventory consumption in the period related to continuous operations totaled $5,227,739 and $4,755,290 for the years ended December 31, 2013 and 2012, respectively.

9. Advance payments

Advance payments were made for the acquisition of:

	2013	2012
Insurance and other services	$ 136,796	$ 50,990
Inventories	134,459	102,821
Lease of locales	33,068	30,390
Total	$ 304,323	$ 184,201

10. Non–current guarantee deposits

Guarantee deposits are comprised as follows:

	2013	2012
Non–current guarantee deposits for leased properties	$ 128,108	$ 110,020

11. Store equipment, leasehold improvements and property

a. *Store equipment, leasehold improvements and properties are as follows:*

	Buildings	Store equipment	Leasehold improvements	Transportation equipment	Computer equipment	Production equipment	Office furniture and equipment	Construction in process	Total
Cost									
Balance as of January 1, 2012	$ 206,437	$ 1,873,480	$ 2,926,312	$ 114,623	$ 303,690	$ 568,650	$ 71,203	$ 411,166	$ 6,475,561
Acquisitions	6,956	328,707	351,879	15,119	74,444	20,726	14,726	108,565	921,122
Business acquisition	–	164,741	162,073	2,178	15,357	–	302	–	344,651
Disposals	(553)	(91,043)	(80,501)	(32,361)	(20,306)	(912)	(1,751)	–	(227,427)
Adjustment for currency conversion	15	(43,907)	(99,489)	(880)	(8,436)	–	(1,667)	(12,897)	(167,261)
Balance as of December 31, 2012	212,855	2,231,978	3,260,274	98,679	364,749	588,464	82,813	506,834	7,346,646
Acquisitions	93,449	263,512	375,472	27,091	94,508	194,299	10,533	68,684	1,127,548
Business acquisition	–	91,529	264,705	180	4,690	–	1,408	31,860	394,372
Disposals	–	(70,620)	(25,561)	(10,519)	(10,750)	(2,096)	(176)	–	(119,722)
Adjustment for currency conversion	(7,139)	(60,775)	(116,515)	(2,100)	(13,206)	–	(4,269)	(18,560)	(222,564)
Balance as of December 31, 2013	$ 299,165	$ 2,455,624	$ 3,758,375	$ 113,331	$ 439,991	$ 780,667	$ 90,309	$ 588,818	$ 8,526,280
Depreciation									
Balance as of January 1, 2012	$ 60,027	$ 792,519	$ 1,390,338	$ 72,909	$ 212,609	$ 434,824	$ 39,915	$ –	$ 3,003,141
Charge for depreciation for the year	10,038	227,427	212,405	15,913	39,546	19,603	9,449	–	534,381
Business acquisition	–	53,142	57,350	1,636	7,631	–	1,018	–	120,777
Adjustment for currency conversion	3	(10,852)	(31,410)	(484)	(5,789)	–	(1,371)	–	(49,903)
Disposals	(325)	(79,006)	(54,789)	(26,542)	(18,496)	(1,119)	(5,581)	–	(185,858)
Balance as of December 31, 2012	69,743	983,230	1,573,894	63,432	235,501	453,308	43,430	–	3,422,538
Charge for depreciation for the year	7,296	240,616	270,246	16,271	57,799	28,014	4,748	–	624,990
Adjustment for currency conversion	(16)	(21,057)	–	(879)	(10,602)	–	(1,989)	–	(34,543)
Disposals	–	(65,424)	(13,323)	(7,628)	(9,498)	(1,622)	(152)	–	(97,647)
Balance as of December 31, 2013	$ 77,023	$ 1,137,365	$ 1,830,817	$ 71,196	$ 273,200	$ 479,700	$ 46,037	$ –	$ 3,915,338
Net cost									
Balance as of December 31, 2012	$ 143,112	$ 1,248,748	$ 1,686,380	$ 35,247	$ 129,248	$ 135,156	$ 39,383	$ 506,834	$ 3,924,108
Balance as of December 31, 2013	$ 222,142	$ 1,318,259	$ 1,927,558	$ 42,135	$ 166,791	$ 300,967	$ 44,272	$ 588,818	$ 4,610,942

12. Intangible assets

a. *Intangible assets are comprised as follows:*

	Brand rights	Commissions for store opening	Franchise and use of locale rights	Licenses and developments	Goodwill	Total
Cost						
Balance as of January 1, 2012	$ 717,473	$ 410,514	$ 318,428	$ 285,720	$ 206,932	$ 1,939,067
Acquisitions	67,839	8,330	77,133	67,239	–	220,541
Business acquisition	803,447	–	–	–	785,816	1,589,263
Adjustment for currency conversion	(12,725)	(12,011)	(1,376)	89	–	(26,023)
Disposals	(9,506)	(20,090)	(6,565)	(4,676)	–	(40,837)
Balance as of December 31, 2012	1,566,528	386,743	387,620	348,372	992,748	3,682,011
Acquisitions	9,789	11,489	212,177	105,973	–	339,428
Business acquisition	17,985	–	18,366	113	789,877	826,341
Adjustment for currency conversion	(24,015)	(14,239)	(3,441)	(838)	–	(42,533)
Disposals	(649)	(2,860)	(110)	(66)	–	(3,685)
Balance as of December 31, 2013	$ 1,569,638	$ 381,133	$ 614,612	$ 453,554	$ 1,782,625	$ 4,801,562
Amortization						
Balance as of January 1, 2012	$ 301,982	$ 339,346	$ 140,204	$ 211,887	$ 16,953	$ 1,010,372
Amortization	136,488	46,321	41,928	52,180	–	276,917
Business acquisition	8,500	–	–	–	–	8,500
Adjustment for currency conversion	(2,414)	(11,436)	(573)	22	–	(14,401)
Disposals	(5,608)	(7,703)	(3,144)	(1,752)	–	(18,207)
Balance as of December 31, 2012	438,948	366,528	178,415	262,337	16,953	1,263,181
Amortization	166,703	17,916	41,756	71,756	–	298,131
Adjustment for currency conversion	(6,182)	(13,946)	(1,414)	(207)	–	(21,749)
Disposals	(252)	(652)	(951)	(42)	–	(1,897)
Balance as of December 31, 2013	$ 599,217	$ 369,846	$ 217,806	$ 333,844	$ 16,953	$ 1,537,667
Net cost						
Balance as of December 31, 2012	$ 1,127,580	$ 20,215	$ 209,205	$ 86,035	$ 975,795	$ 2,418,830
Balance as of December 31, 2013	$ 970,421	$ 11,287	$ 396,806	$ 119,710	$ 1,765,672	$ 3,263,896

13. Operating lease agreements

The locales housing the stores of Alsea are leased from third parties. In general terms, lease agreements signed for the operations of the Entity's establishments are for a term of between five and ten years, with fixed rates set in pesos. Lease payments are generally revised annually and they increase on the basis of inflation. As an exception, lease payments for certain establishments are agreed in US dollars, and in some cases, they may include a variable component, which is determined on the basis of net sales of the respective establishment. Alsea considers that it depends on no specific lessor and there are no restrictions for the entity as a result of having signed such agreements.

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

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

Rental expense derived from operating lease agreements related to the locales housing the stores of the different Alsea brands are as follows:

	2013	2012
Rental expense	$ 1,262,533	$ 1,066,583

14. Investment in subsidiaries

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

Subsidiary and/or associate	Operations	2013	2012
Panadería y Alimentos para Food Service	Distribution of Alsea brand foods	100.00%	100.00%
Café Sirena, S. de R.L de C.V.	Operator of the Starbucks brand in Chile	100.00%	82.00%
Operadora de Franquicias Alsea, S.A. de C.V.	Operator of the Burger King brand in Mexico	80.00%	99.99%
Operadora y Procesadora de Productos de Panificación S.A. de C.V.	Operator of the Domino's Pizza brand in Mexico	99.99%	99.99%
Gastrosur, S.A. de C.V.	Operator of the Chili's Grill & Bar brand in Mexico	99.99%	99.99%
Fast Food Sudamericana, S.A.	Operator of the Burger King brand in Argentina	99.99%	99.99%
Fast Food Chile, S.A.	Operator of the Burger King brand in Chile	99.99%	99.99%
Starbucks Coffee Argentina, S.R.L	Operator of the Starbucks brand in Argentina	100.00%	82.00%
Dominalco, S.A.	Operator of the Domino's Pizza brand in Colombia	95.00%	95.00%
Servicios Múltiples Empresariales ACD S.A. de C.V. SOFOM E.N.R	Operator of Factoring and Financial Leasing in Mexico	99.99%	99.99%
Asian Bistro Colombia, S.A.S	Operator of the P.F. Chang's brand in Colombia	100.00%	100.00%
Asian Bistro Argentina S.R.L.	Operator of the P.F. Chang's brand in Argentina	100.00%	100.00%
Operadora Alsea en Colombia, S.A.	Operator of the Burger King brand in Colombia	95.00%	95.00%
Asian Food Ltda.	Operator of the P.F. Chang's brand in Chile	100.00%	100.00%
Grupo Calpik, S.A.P.I. de C.V.	Operator of the California Pizza Kitchen brand in Mexico	99.99%	99.99%
Especialista en Restaurantes de Comida Estilo Asiática, S.A. de C.V.	Operator of the P.F. Chang's Chang's y Pei Wei en México	99.99%	99.99%
Distribuidora e Importadora Alsea, S.A. de C.V.	Distributor of foods and production materials for the Alsea and related brands	99.99%	99.99%
Italcafe, S.A. de C.V.	Operator of Italianni's brand	100.00%	100.00%
Grupo Amigos de San Ángel, S.A. de C.V.	Operator of Italianni's brand	89.77%	89.77%
Grupo Amigos de Torreón, S.A. de C.V.	Operator of Italianni's brand	93.86%	93.86%
Grupo Amigos de Perisur, S.A. de C.V.	Operator of Italianni's brand	94.88%	94.88%
Starbucks Coffee Chile, S.A. [1]	Operator of the Starbucks brand in Chile	100.00%	18.00%

(1) In September 2013, Alsea acquired the entirety of the shares of Starbucks Coffee Chile, S.A. de C.V., as from which date it has consolidated the financial information. Before that date, the Entity recognized the equity method (see Note 1a and 16).

15. Investment in associated companies

Acquisition of the non–controlling interest of Grupo Axo

In June 2013, Alsea reached an agreement to acquire 25% of the capital stock of Grupo Axo. The respective carrying entry was made in the consolidated statement of financial position as investments in shares of associated companies, and that operation gave rise goodwill of $559,887, which is included in the balance of the investment.

Goodwill arising from the acquisition of Grupo Axo resulted from the consideration paid, which included the amounts of the benefits of new businesses, mainly the sale of international brands of clothes and cosmetics, from which growth is expected through a development plan. Those benefits are recognized separately in goodwill because they fail to meet the recognition criteria for identifiable intangible assets.

At December 31, 2013 and 2012, the investment in shares of associated companies is comprised of the Entity's direct interest in the capital stock of the companies listed below:

	(%)			Interest in associated company	
	2013	2012	Main operations	12/31/2013	12/31/2012
Starbucks Coffee Chile, S.A.	–	18%	Operator of the Starbucks brand in Chile	$ –	$ 40,296
Grupo Axo,	25%	–	Sales of prestigious brands of clothes and accessories	788,665	–
Total				$ 788,665	$ 40,296

	(%)			Equity in results	
	2013	2012	Main operations	12/31/2013	12/31/2012
Starbucks Coffee Chile, S.A.	–	18%	Operator of the Starbucks brand in Chile	$ –	$ 12,978
Grupo Axo,	25%	–	Company engaged in sales of prestigious brands of clothes and accessories	43,582	–
Total				$ 43,582	$ 12,978

Starbucks Coffee Chile, S.A.

The Entity's interest in equity as of December 31, 2012, as well as in the income and expenses for the year ended December 31, 2012 was 18%. The associated company's total assets, liabilities and equity and its results are as follows:

	12/31/2012
Current assets	$ 207,660
Non–current assets	$ 136,399
Current liabilities	$ 99,908
Non–current liabilities	$ 20,287
Equity	$ 223,864

	12/31/2012
Income	$ 536,655
Costs	$ 464,555
Net profit for the period	$ 72,100

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

The Entity's interest in assets and liabilities as of December 31, 2013, and in the income and expenses for the period from the date of acquisition to December 31, 2013 is 25%. The associated company's total assets, liabilities and equity and its results are as follows:

	12/31/2013
Current assets	$ 1,435,557
Non–current assets	$ 911,862
Current liabilities	$ 997,003
Non–current liabilities	$ 416,473
Equity	$ 915,114
Non–controlling equity	$ 18,829

	01/08/2013 to 31/12/2013
Revenues	$ 1,207,860
Costs	$ 1,033,532
Profit for the period	$ 174,328

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

	2013
Net assets of the associated company	$ 915,114
Entity's interest in Grupo Axo (25%)	$ 228,778
Plus: goodwill	559,887
Carrying value of the Entity's interest in Grupo Axo	$ 788,665

16. Business combination

Acquisition of the controlling interest of Starbucks Coffee Chile

In September 2013, Alsea acquired 82% of Starbucks Coffee Chile, S.A. (Starbucks Chile), which operates the Starbucks stores in Chile, as a result of which Alsea's shareholding in that entity increased from 18% to 100%, thus constituting a business combination that is currently undergoing valuation by the purchase method in accordance with the IFRS.

The following steps are required in acquisition accounting:

- Recognize and measure the respective assets acquired and liabilities assumed.
- In a business combination performed in phases, the purchaser reassesses its previous interest in the acquired entity at date of acquisition using the fair value and recognize the resulting gain or loss, if any, in income.
- Determine the respective franchise right or goodwill, if any.

Following is an analysis of the preliminary assignment of acquisition cost to the fair values of acquired net assets. Given that the accounting for the acquisition is in the measurement period, which is expected to conclude in September 2014, the following preliminary figures are subject to change:

Item	August 2013
Current assets	$ 218,083
Equipment and intangible assets	148,125
Current and long–term liabilities	(101,807)
Fair value of net assets	264,401
Fair value of prior interest	47,593
Price paid in cash	860,014
Total value of consideration paid	907,607
Goodwill	$ 643,206

Goodwill arising from the acquisition of Starbucks Coffee Chile derives from the price paid, which included amounts in relation to the benefits of operating 44 stores for which market growth is expected based on a development plan over the next five years in Chile, as well the adjacent benefits, mainly the growth in income, operating synergies and the purchase of supplies. Those benefits are recognized separately in goodwill because they fail to meet the recognition criteria for identifiable intangible assets.

As from the acquisition date, Starbucks Chile has contributed $231,131 to consolidated revenues and $32,772 to the profit before income taxes for the period. If the acquisition had occurred on January 1, 2013, Alsea's consolidated net profit for the period would have been $694,362 and revenues would have been $16,087,950. The acquisition price did not include any a contingent consideration. Acquisition expenses related to this transaction amounted to $1,028, which is shown under other expenses.

Net cash flows related to the acquisition of the subsidiary total $731,358, corresponding to the consideration paid in cash of $860,014, less cash and cash and cash equivalent balances acquired in the amount of $128,656.

Acquisition of Burger King Mexicana

In April 2013, the acquisition of the BURGER KING® master franchise in Mexico concluded. According to the strategic association egreement signed by Alsea and Burger King Worldwide Inc. (BKW), the BKW subsidiary in Mexico, Burger King Mexicana, S.A. de C.V. (BKM) was merged with OFA, a subsidiary of Alsea, with the latter as the surviving company and operator of 204 BURGER KING® restaurants in Mexico. After the merger concluded, Alsea also acquired 28.1% of the shares of OFA held by BKW, after which Alsea's final shareholding in OFA is 80% and BKW's final shareholding in OFA is 20%.

Given that the operation was considered the acquisition of is business, the related acquisition accounting was applied as of the acquisition date. The acquisition price did not include any contingent consideration.

The following steps are required in acquisition accounting:
i.– Recognize and measure the respective assets acquired and liabilities assumed
ii.– Determine the respective franchise right or goodwill, if any.

Following is an analysis of the preliminary assignment of acquisition cost to the fair values of acquired net assets. Given that the accounting for the acquisition is in the measurement period, which is expected to conclude in April 2014, the following preliminary figures are subject to change:

Item		March 2013
Current assets	$	106,128
Equipment and intangible assets		309,374
Deferred taxes		62,803
Current and long–term liabilities		(73,547)
Fair value of net assets		404,758
Consideration paid in shares		217,534
Price paid in cash		333,895
Total value of price paid		551,429
Goodwill	$	146,671

The consideration paid in OFA shares, which is in the measurement phase, totals $217,534 and comprises 20% of its stockholders' equity.

Goodwill arising from the acquisition of Burger King Mexicana derives from the price paid, which included amounts related to the benefits of operating 204 stores (97 acquired and 107 own stores), for which market growth is expected based on a development plan over the next five years, as well the adjacent benefits, mainly the growth in income, operating synergies and the purchase of supplies resulting from the merger of the Burger King brand in Mexico. Those benefits are recognized separately in goodwill because they fail to meet the recognition criteria for identifiable intangible assets.

As from the acquisition date, Burger King Mexicana has contributed $564,376 to revenues and $3,756 to the profit before income taxes for the period. If the acquisition had occurred on January 1, 2013, Alsea's consolidated net profit for the period would have been $647,842 and revenues would have been $15,893,611. Acquisition expenses related to this transaction amounted to $1,101, which is shown under other expenses.

Net cash flows related to the acquisition of the subsidiary total $288,067, corresponding to the consideration paid in cash of $333,895, less cash and cash and cash equivalents balances acquired totaling $47,828.

Acquisition of Italianni's

The acquisition of Italianni's concluded in February 2012. The final price was $1,765 million.

Alsea acquired 8,168,161 shares comprising 100% of the shares of Italcafé, SA. de C.V., which owns: i.– Eight Italianni's units and the exclusive rights to develop, expand and sell subfranchises of the Italianni's brand throughout Mexico, and ii.– 89.7682% of the capital stock of Grupo Amigos de San Ángel, S.A. de C.V. ("GASA"), a company that owns 34 Italianni's units. The purpose of the acquisition is to consolidate the expansion plans of the Casual Dinning segment.

Franchise license agreements, other rights and assets assigned to third parties were paid to the holders of those rights and goods as part of the transaction.

Additionally, the final agreement contemplates the following, among other matters:

a) The exclusive operation of the Italianni's brand restaurants in Mexico for a maximum term of 30 years.

b) Alsea will pay no royalties, opening fees or commissions for the use of the brand or the franchise model.

c) There is no obligation to comply with an openings plan.

d) The assignment of franchise agreements to existing third parties.

e) The power to award new franchises to third parties.

f) The rights to distribute all raw materials to the brand's restaurants.

The measurement period concluded in February 2013. Following is an analysis of fair value to the net assets acquired as of the date of acquisition. No changes arose to the preliminary recognition of the acquisition.

Item		February 2012
Current assets	$	173,961
Store equipment and properties, net		242,241
Intangible assets, net		740,619
Short–term and long–term debts		(204,063)
Fair value net assets		952,758
Price paid in cash		1,765,000
Non–controlling interest		(26,426)
Total value of price paid		1,738,574
Goodwill	$	785,816

The non–controlling interest recognized at the acquisition date was valued based in proportion to identifiable net assets.

Goodwill arising from the acquisition of Italianni's derives from the consideration paid, which included amounts related to the benefits of operating the Italian food brand, for which market growth is expected based on a development plan over the next five years, as well the adjacent benefits, mainly the growth in income and the expected operating synergies. Those benefits are recognized separately in goodwill because they fail to meet the recognition criteria for identifiable intangible assets.

As from the acquisition date and until December 31, 2012, Italinanni's has contributed $742,466 to revenues and $43,622 to the profit before income taxes for the period. If the acquisition had occurred on January 1, 2013, Alsea's consolidated net profit for the period would have been $413,001 and revenues would have been $13,652,912.

Acquisition expenses related to this transaction amounted to $3,234, which is shown under other expenses.

Net cash flows related to the acquisition of the subsidiary total $1,758,181, corresponding to the consideration paid in cash of $1,765,000, less the acquired cash and cash and cash equivalents balances acquired for a total of $6,819.

17. Goodwill

Goodwill is comprised as follows:

Item		Amount
Balance as of January 01, 2012	$	189,979
Italianni's		785,816
Balance as of December 31, 2012		975,795
Burger King Mexicana		146,671
Starbucks Coffee Chile		643,206
Balance as of December 31, 2013	$	1,765,672

Assignment of goodwill to cash generating units

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

		2013		2012
Burger King Mexicana	$	239,756	$	93,085
Domino's Pizza		70,280		70,280
Chili's		26,614		26,614
Italianni's		785,816		785,816
Starbucks Coffee Chile		643,206		–
	$	1,765,672	$	975,795

At December 31, 2013 and 2012, studies performed on impairment testing concluded that goodwill shows no signs of impairment.

18. Long–term debt

Long–term debt at December 31, 2013 and 2012 is comprised of unsecured loans, as shown below:

	Maturities	Average annual interest rate		**2013**		2012
Single loans	2014–2018	4.50% 8.00%	$	2,554,767	$	2,474,480
Less current maturities				388,486		396,647
Long–term maturities			$	2,166,281	$	2,077,833

Annual long–term debt maturities at December 31, 2013 are as follows:

Year		Amount
2014	$	388,486
2015		472,598
2016		549,098
2017		702,098
2018		442,487
	$	2,554,767

Bank loans include certain affirmative and negative covenants, such as maintaining certain financial ratios. At December 31, 2013 and 2012, all such obligations have been duly met.

19. Debt instruments

a. In June 2013, the Entity decided to issue debt instruments for a total of $2,500,000 over 5 years as from the issue date, maturing in June 2018. Those instruments will accrue interest at the 28–day TIIE rate plus 0.75 percentage points. The balance at December 31, 2013 is $2,488,850.

b. Based on the debt instrument program established by Alsea, in May 2011, the Entity concluded the placement of debt instruments for a total of $1,000 million on the Mexican market (ALSEA11). The intermediaries that participated in placing the offer were HSBC Casa de Bolsa, S. A. de C. V., Grupo Financiero HSBC, Actinver Casa de Bolsa, S. A. de C. V. and Grupo Financiero Actinver.

The debt instruments in question are for a term of three years as from their issue date, they mature in May 2014 and are subject to the 28–day TIIE rate plus 1.30 percentage points.

In December 2012, the Entity decided to prepay the entirety of the debt instrument. Therefore, at December 31, 2012, no amounts are outstanding under ALSEA 11. At December 2012, the balance of expenses related to such issue, such as legal fees, issue costs, and printing and placement expenses, were recognized in the consolidated statement of income for the year subsequent to the prepayment.

20. Income taxes

The Entity is subject to income tax and through December 31, 2013, to flat tax.

Income tax – The rate was 30% in 2013 and 2012 and as a result of the new 2014 income tax law (2012 tax law), the rate will continue at 30% in 2014 and thereafter. The Entity incurred income tax on a consolidated basis up to 2013 with its Mexican subsidiaries. As a result of the 2014 tax reform, the tax consolidation regime was eliminated, and the Entity and its subsidiaries have the obligation to pay the deferred income tax determined as of that date during the subsequent five years beginning in 2014, as illustrated below.

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

Flat tax – Flat tax was eliminated as of 2014; therefore, up to December 31, 2013, this tax was incurred both on revenues and deductions and certain tax credits based on cash flows from each year. The respective rate was 17.5%.

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

The current income tax is the grater of ISR and IETU up to 2013.

In Chile, in April 2010, the Chilean government announced the 2010–2013 financing plan for the reconstruction of Chile after the February 2010 earthquake. Such financing plan includes a temporary increase in the First Category Interest rate of the historical rate of 17% to 20% in 2011, 18.5% in 2012 and reduces it back to 17% in 2013. The change in the First Category Tax was pronounced in July 2010.

In Colombia, i– Income tax is determined on the basis of taxable income. The tax rate is 32%, ii.– The percentage for determining presumptive income is 3% of the liquid equity of the preceding year.

In Argentina i.– Tax on income The Entity applies the deferred tax method to recognize the accounting effects of taxes on earnings at the 30% rate. ii.– Tax on presumptive minimum earnings (IGMP for its acronym in Spanish), the Entity determines IGMP applying the current 1% rate to assets computable at each year–end closing, iii.– Tax on personal goods of individuals or business entities residing abroad, the tax is determined applying the 0.5% to the proportional value of equity at the year–end closing and it is considered a single and final payment.

a. *Income taxes recognized in income*

	2013	2012
Income tax (tax basis)	$ 422,573	$ 326,795
Deferred income tax	(137,706)	(107,648)
	$ 284,867	$ 219,147

The tax expense attributable to income before income tax differs from that arrived at by applying the 30% statutory rate in 2013 and 2012 due to the following items:

	2013	2012
Statutory income tax rate	30%	30%
Non–deductible expenses, effects of inflation and others	3%	10%
Change in unrecognized tax benefits	(3%)	(5%)
Effective consolidated income tax rate	30%	35%

b. *Deferred taxes – balance sheet*

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

	2013	2012
Deferred (assets) liabilities:		
Estimation for doubtful accounts and inventory obsolescence	$ (10,863)	$ (5,997)
Liability provisions	(368,176)	(220,682)
Advances from customers	(18,565)	(30,072)
Unamortized tax losses	(166,337)	(201,465)
Recoverable asset tax	(12,269)	(12,269)
Store equipment, leasehold improvements and property	(471,470)	(380,473)
Other assets	12,224	807
Advance payments	53,049	21,186
	$ (982,407)	$ (828,965)

Timing differences		2013		2012
Beginning balance	$	(828,965)	$	(692,420)
Recognized in income		(137,706)		(107,648)
Acquisition		(11,024)		(24,628)
Recognized directly in capital		(4,712)		(4,269)
	$	(982,407)	$	(828,965)

Deferred assets not recognized at December 31, 2013 and 2012 totaled $28,384 and $159,594, respectively. The net change in deferred assets not recognized at December 31, 2013 and 2012 resulted in a decrease of $28,446 and $30,626, respectively, arising mainly from accumulated tax losses.

At December 31, 2013, unamortized tax losses expire as shown below:

Year of maturity		Amortizable losses
2014	$	266,624
2015		14,315
2016		26,664
2017		39,028
2018		30,346
2019		1,581
2020		28,877
2021		22,692
2022		51,342
2023		72,987

At December 31, 2013 and 2012, income tax payable balances related to the Entity's consolidated tax regime before and after the enactment of the 2011 tax amendments correspond to unamortized tax losses arising under consolidation at the controlling and the controlled companies amounting to $26,034 and $193,454, respectively.

Following is the yearly schedule of payments contemplated by the Entity to cover income tax liabilities arising under tax consolidation resulting from the 2014 tax amendments:

Year of maturity		Payment
2014	$	10,111
2015		7,229
2016		5,801
2017		2,893
	$	26,034

21. Provisions

Provisions at December 31, 2013 and 2012 are comprised as follows:

		Compensation and other personnel payments		Supplies and others		Total
January 1, 2012	$	103,631	$	468,099	$	571,730
Increases charged to income		434,582		728,559		1,163,141
Payments and cancellations		(400,509)		(672,627)		(1,073,136)
December 31, 2012	$	137,704	$	524,031	$	661,735
Increases charged to income		545,424		426,466		971,890
Payments and cancellations		(532,121)		(370,777)		902,898
December 31, 2013	$	151,007	$	579,720	$	730,727

22. Employee retirement benefits

The net cost for the period related to obligations derived from the pension plan and those related to seniority premiums and termination benefits totals $21,674 and $17,102 in 2013 and 2012. Other disclosures required by the accounting provisions are not considered significant.

23. Financial instruments

a. *Capital risk management*

The Entity manages its capital to ensure that the companies that it controls are able to continue operating as a going concern while they maximize the yield for their shareholders by streamlining the debt and equity balances. The Entity's general strategy has not changed in relation to 2012.

The Entity's capital structure consists of the net debt (the loans described in Note 18, compensated by cash balances and banks) and the Entity's capital (made up of issued capital stock, reserves and retained earnings, as shown in Note 24).

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

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

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

In the years ended December 31, 2013 and 2012, there were no modifications to the objectives, policies or processes pertaining to capital management.

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

– Net Debt to EBITDA = Net Debt / EBITDA ltm

At December 31, 2013 and 2012, the financial restriction established in the Entity's loan agreements relates to the Net Debt to EBITDA ratio for the last twelve months. The Entity complied with the established ratio, which was slightly below 1.0 and 2.6, respectively.

b. *Financial instrument categories*

	2013	2012
Financial assets		
Cash and cash equivalents	$ 663,270	$ 932,594
Loans and accounts receivable at amortized cost	628,818	535,931
Financial liabilities at amortized cost		
Bank loans	388,486	396,647
Long–term bank loans	2,166,281	2,077,533
Debt securities	2,488,850	–
Other accounts payable and others	901,589	871,404

c. *Objectives of managing financial risks*

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

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

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

d. *Market risk*

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

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

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

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

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

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

Exposure to market risk is valued by the value at risk (VaR), which is supplemented with a sensitivity analysis.

There have been no changes in the Entity's exposure to market risks or in the way in which those risks are managed and valued.

e. *Currency exchange risk management*

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

Note 32 shows foreign currency positions at December 31, 2013 and 2012. It also shows the exchange rates in effect at those dates.

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

The exchange rate risk expressed in a foreign currency (USD) is internally monitored on a weekly basis with the positions or hedges approximating maturity at market exchange rates. The agent calculating or valuing the derivative financial instruments is in all cases the counterparty designated under the master agreement. The purpose of the internal review is to identify any significant changes in exchange rates that could pose a risk or cause the Entity to incur in non–compliance with its obligations. If a significant risk position is identified, the Corporate Treasury Manager informs the Corporate Financial Director's office.

The following table shows a quantitative description of exposure to exchange risk based on foreign currency forwards and options agreements contracted by the Entity in USD/MXN, in effect as of December 31, 2013.

			Underlying / reference variable		Notional amount/ face value (thousands of USD)		Fair value (thousands of USD)		
Type of derivative, security or contract	Position	Objective of the hedging	Current quarter	Previous quarter	Current quarter	Previous quarter	Current quarter	Previous quarter	Amounts of maturities (thousands of USD)
Forwards	Long	Economic	13.06 USD/MXN	13.01 USD/MXN	2,500	1,500	$ (16)	$ (8)	2,500
Options	Long	Economic	13.06 USD/MXN	13.01 USD/MXN	13,750	4,500	$ (9)	$ (76)	13,750

1. Foreign currency sensitivity analysis

At December 31, 2013, the Entity has contracted hedging in order to purchase US dollars for the next 12 months at the average exchange rate of 12.60 for a total of $16.3 million dollars. The fair value of currency derivative financial instruments is $0.3 million pesos.

Considering the USD/MXN exchange rate at 13.06 for the 2013 closing, the Entity's current portfolio and the net long position between forwards and options, Management assumes that a stress scenario affecting its income for the year ended December 31, 2013 would have resulted in appreciation of 1.00 to the US dollar, which would result in the purchase of forwards agreements above the market price and the activation of options with a barrier, thus increasing the notional amount covered and the fair value thereof.

The effect on the derivative financial instrument portfolio at the exchange rate with appreciation of 8% would result in an increase in financing costs of approximately $15.6 million pesos. The net position of assets vs. financial liabilities expressed in US dollars is not being considered because it is not representative or material to the Entity. The analysis shows only the effect on hedging for purchases of US dollars contracted and in effect at the December 31, 2013 closing.

Management considers that in the event of a stress scenario as the one described above, the Entity's liquidity capacity would not be affected, there would be no negative effects on its operations, nor would compliance with the commitments assumed in relation to contracted derivative financial instruments be at risk.

2. Foreign currency forwards and options contracts

At December 31, 2013 and 2012, a total of 309 and 387 derivative financial instrument operations (forwards and options) were carried out, respectively, for a total of 146.1 and 103.3 million US dollars, respectively. The absolute value of the fair value of the derivative financial instruments entered into per quarter over the year does not comprise more than 5% of assets, liabilities or total consolidated capital, or otherwise 3% of the total consolidated sales for the last quarter. Therefore, the risk for the Entity of exchange rate fluctuations will have no negative effects, nor will it affect its capacity to carry out derivative financial instrument operations.

At December 31, 2013 and 2012, Alsea has contracted DFI's to purchase US dollars in the next twelve months for a total of approximately $16.3 and $45 million USD, at the average exchange rate of $12.6 and $12.84 pesos to the dollar, respectively.

At December 31, 2012 and 2011, the Entity had contracted the following financial instruments:

Figures in thousands of US dollars at 2013

			Underlying / reference variable		Notional amount / face value (USD)		Fair value (USD)		
Type of derivative, security or contract	Position	Objective of the hedging	Current Quarter	Prior Quarter	Current Quarter	Prior Quarter	Current Quarter	Prior Quarter	Amounts of maturities (USD)
Forwards	Long	Economic	13.06 USD/MXN	13.01 USD/MXN	2,500	1,500	$ (16)	$ (8)	2,500
Options	Long	Economic	13.06 USD/MXN	13.01 USD/MXN	13,750	4,500	$ (9)	$ (76)	13,750

Figures in thousands of US dollars at 2012

			Underlying / reference variable		Notional amount / face value (USD)		Fair value (USD)		
Type of derivative, security or contract	Position	Objective of the hedging	Current Quarter	Prior Quarter	Current Quarter	Prior Quarter	Current Quarter	Prior Quarter	Amounts of maturities (USD)
Forwards	Long	Economic	13.01 USD/MXN	12.85 USD/MXN	18,250	18,500	$ 19	$ 251	18,250
Options	Long	Economic	13.01 USD/MXN	12.85 USD/MXN	26,500	43,500	$ (63)	$ 332	26,500

f. *Interest Rate Risk Management*

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

- Cash flow requirements
- Budget reviews
- Observation of the market and interest rate trends in the local market and in the countries in which Alsea operates (Mexico, Argentina, Chile and Colombia)
- Differences between negative and positive market rates

The aforementioned evaluation is intended to mitigate the Entity's risk concerning debt subject to floating rates or indicators, to streamline the respective prices and to determine the most advisable mix of fixed and variable rates.

The Corporate Treasury Manager is responsible for monitoring and reporting to the Administration and Financial Director any events or contingencies of importance that could affect the hedging, liquidity, maturities, etc. of DFI's. He in turn informs Alsea's General Management of any identified risks that might materialize.

The type of derivative products utilized and the hedged amounts are in line with the internal risk management policy defined by the Entity's Corporate Practices Committee, which contemplates an approach to cover foreign currency needs without the possibility to carry out speculative operations.

Interest rate swap contracts

According to the interest rate contracts in place, the Entity agrees to exchange the difference between the amounts of the fixed and variable rates calculated on the agreed notional amount. Such contracts allow the Entity to mitigate interest rate change risks on the fair value of the debt issued at a fixed interest rate and the exposure to cash flows on the debt issued at a variable interest rate. The fair value of interest rate swaps at the end of the period being reported is determined by discounting future cash flows using the curves at the end of the period being reported and the credit risk inherent to the contract, as described further on in these consolidated financial statements. The average interest rate is based on current balances at the end of the period being reported.

The following table shows a quantitative description of exposure to interest rate risk based on interest rate forwards and options agreements contracted by the Entity, in effect as of December 31, 2013.

Figures in thousands of US dollars at 2013

			Underlying / reference variable		Notional amount / face value (USD)		Fair value (USD)		
Type of derivative, security or contract	Position	Objective of the hedging	Current Quarter	Prior Quarter	Current Quarter	Prior Quarter	Current Quarter	Prior Quarter	Amounts of Expiration (USD)
IRS Plain Vanilla	Long	Economic	3.79% – TIIE 28 d	4.03 – TIIE d	38,270	38,426	$ 315	$ 424	38,270
Knock Out IRS	Long	Economic	3.79% – TIIE 28 d	4.03 – TIIE d	11,481	11,528	$ 56	$ 63	11,481
Limited IRS	Long	Economic	3.79% – TIIE 28 d	4.03 – TIIE d	11,481	11,528	$ 64	$ 74	11,481
Capped IRS	Long	Economic	3.79% – TIIE 28 d	4.03 – TIIE d	7,654	7,685	$ 47	$ 50	7,654

Figures in thousands of US dollars at 2012

			Underlying / reference variable		Notional amount / face value (USD)		Fair value (USD)		
Type of derivative, security or contract	Position	Objective of the hedging	Current Quarter	Prior Quarter	Current Quarter	Prior Quarter	Current Quarter	Prior Quarter	Amounts of Expiration (USD)
Interest rate swap	Long	Economic	4.84% – TIIE 28 d	4.81 – TIIE d	30,888	31,008	$ 151	$ 167	30,888
Knock Out swap	Long	Economic	4.84% – TIIE 28 d	4.81 – TIIE d	11,583	11,628	$ (48)	$ (173)	11,583
Limited swap	Long	Economic	4.84% – TIIE 28 d	4.81 – TIIE d	11,583	11,628	$ (70)	$ 150	11,583

1. <u>Analysis of interest rate sensitivity</u>

The following sensitivity analysis has been determined on the basis of the exposure to interest rates of derivative instruments and of non–derivative instruments at the end of the period being reported. In the case of variable rate liabilities, an analysis is prepared assuming that the amount of the liability held at the end of the period being reported has been the amount of the liability throughout the year.

- The first stress scenario considered by Management is a 200 bps increase in the 28–day TIIE reference rate while the rest of the variables remain constant. With the mix in the hedging portfolio of plain vanilla interest rate swaps and the swaptions contracted at the December 31, 2013 close, the increase in financial costs is of approximately $43,000. The above effect arises because the barriers protecting the increase in the interest rates are exceeded, which leaves the Entity exposed to market rates.

- A 150 bps increase in the 28–day TIIE rate represents an increase in the financial cost of approximately $15,000, which poses no risk to the Entity's liquidity nor gives rise to a negative effect on the business's operations or in assuming commitments for contracting interest rate derivative financial instruments.

- Lastly, the scenario with a 100 bps increase in the 28–day TIIE reference rate would have a positive effect on the financial cost of approximately $1,500. The foregoing is due to the fact that plain vanilla swaps and swaptions hedging would be active, thus improving the level of exchange from a variable to a fixed rate.

g. *Credit risk management*

Credit risk refers to the uncertainty of whether one or several of the counterparties will comply with their contractual obligations, which would result in a financial loss for the Entity. The Entity has adopted the policy of only operating with solvent institutions and obtaining sufficient collateral, when deemed necessary, as a way to mitigate the risk of financial loss caused by non–compliance.

The Entity's exposure and the credit ratings of its counterparties are supervised on a regular basis. The maximum credit exposure levels allowed are established in the Entity's risk management internal policies. Credit risk over liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings issued by accepted rating agencies.

In order to reduce to a minimum the credit risk associated to counterparties, the Entity contracts its financial instruments with domestic and foreign institutions that are duly authorized to engage in those operations and which form part of the Mexican Financial System.

Investment surpluses are managed based on the Entity's policy in place, which has been designed to mitigate the credit risk of counterparties and streamline its resources. The policies include certain guidelines, such as maximum amounts per counterparty, instruments and terms. All operations carried out in both local and foreign currencies are covered under a stock–exchange intermediation master agreement, which has been signed by both parties with regulated institutions that form part of the Mexican Financial System and that have all the guarantees required by the Entity and have been awarded high credit ratings. The instruments authorized for temporary investments are only those issued by the federal government, corporations and banks, all under repurchase agreements.

With respect to derivative financial instruments, the Entity signs a standard agreement approved by the International Swapws and Derivatives Association Inc. with each counterparty along with the standard confirmation forms for each operation.

Additionally, the Entity signs bilateral guarantee agreements with each counterparty that establish the margin, collateral and credit line policies to be followed. Such agreements, commonly known as "Credit Support Annexes", establish the credit limits offered by credit institutions that would apply in the event of negative scenarios or fluctuations that might affect the fair value of open positions of derivative financial instruments. Such agreements establish the margin calls for instances in which credit facility limits are exceeded.

In addition to the bilateral agreements signed further to the ISDA maser agreement, known as Credit Support Annexes (CSA), the Entity monitors the favorable or negative fair value on a monthly basis. Should the Entity incur a positive result, and that result be considered material in light of the amount, a CDS could be contracted to reduce the risk of breach by counterparties.

The Entity has the policy of monitoring the volume of operations contracted with each institution, in order to avoid margin calls and mitigate credit risks with counterparties.

At the December 31, 2013 and 2012 closing, the Entity has incurred no margin calls, nor does it hold any type of securities pledged as a guarantee by a counterparty with which it may have carried out interest rate hedging operations.

At December 31, 2013 and 2012, the Entity has recorded no breaches to the agreements signed with different financial entities for exchange rate hedging operations.

The Entity's maximum exposure to credit risk is represented by the carrying value of its financial assets. At December 31, 2013, that risk amounts to $1,292,088.

h. *Liquidity risk management*

The ultimate responsibility for managing liquidity lies in the Financial Director, for which purpose the Entity has established policies to control and follow up on working capital, thus making it possible to manage the Entity's short–term and long–term financing requirements. In keeping this type of control, cash flows are prepared periodically to manage risk and maintain proper reserves, credit lines are contracted and investments are planned.

The Entity's main source of liquidity is the cash earned from its operations.

The following table describes the contractual maturities of the Entity's financial liabilities considering agreed payment periods. The table has been designed based on undiscounted, projected cash flows and financial liabilities considering the respective payment dates. The table includes the projected interest rate flows and the capital disbursements made towards the financial debt included in the statement of financial position. If interest is agreed at variable rates, the undiscounted amount is calculated based on the interest rate curves at the end of the period being reported. Contractual maturities are based on the minimum date on which the Entity must make the respective payments.

As of December 31, 2013,	Average effective interest rate	Up to 1 year	Up to 2 year	Up to 3 year	Up to 4 year	Up to 5 years or more	Total
Long–term debt	4.79%	$ 520,240	$ 581,546	$ 629,085	$ 748,952	$ 451,006	$ 2,930,829
Debt instruments	4.54%	115,014	123,861	106,167	123,861	2,541,933	3,010,836
Suppliers		1,408,565	–	–	–	–	1,408,565
Other accounts payable and others		901,589	–	–	–	–	901,589
Total		$ 2,945,408	$ 705,407	$ 735,252	$ 872,813	$ 2,992,939	$ 8,251,819

As of December 31, 2012,	Average effective interest rate	Up to 1 year	Up to 2 year	Up to 3 year	Up to 4 year	Up to 5 years or more	Total
Long–term debt	6.18%	$ 537,967	$ 625,666	$ 753,496	$ 918,868	$ –	$ 2,835,997
Suppliers		1,129,612	–	–	–	–	1,129,612
Other accounts payable and others		871,404	–	–	–	–	871,404
Total		$ 2,538,983	$ 625,666	$ 753,496	$ 918,868	$ –	$ 4,837,013

i. *Fair value of financial instruments*

This notes provides information on the manner in which the Entity determines the fair values of the different financial assets and liabilities.

1. Fair value of the Entity's financial assets and liabilities measured at fair value on recurring bases.

Some of the Entity's financial assets and liabilities are valued at fair value at each reporting period. The following table contains information on the procedure for determining the fair values of financial assets and financial liabilities (specifically the valuation technique(s) and input data used).

Financial assets/liabilities	Fair value (1) (2) Figures in USD 12/31/2013	12/31/2012	Fair value hierarchy	Valuation technique(s) and main input data
1) Forwards and currency options agreements	$ (25)	$ (44)	Level 2	Plain vanilla forwards are calculated based on discounted cash flows on forward exchange type bases. The main input data are the Spot, the risk-free rates in MXN and USD + a rate that reflects the credit risk of counterparties. In the case of options, the methods used are Black and Scholes and Montecarlo digital and/or binary algorithms.
2) Interest rate swaps	$ 482	$ 33	Level 2	Discounted cash flows are estimated based on forwards interest rates (using the observable yield curves at the end of the period being reported) and the contractual rates, discounted at a rate that reflects the credit risk of the counterparties.

No transfers were made during the period between levels.

(1) The fair value is presented from a bank's perspective, which means that a negative amount represents a favorable result for the Entity.

(2) The calculation or valuation agent used is the same counterparty or financial entity with whom the instrument is contracted, who is asked to issue the respective reports at the month-end closing dates specified by the Entity.

Techniques and valuations applied are those generally used by financial entities, with official price sources from banks such as Banxico for exchange rates, Proveedor Integral de Precios (PIP) and Valmer for supply and databases of rate prices, volatility, etc.

In order to reduce to a minimum the credit risk associated with counterparties, the Entity contracts its financial instruments with domestic and foreign institutions that are duly authorized to engage in those operations.

a. *Fair value of financial assets and liabilities that are not valued at fair value on a recurring basis (but that require fair value disclosure)*

Except for the matter described in the following table, Management considers that the carrying values of financial assets and liabilities recognized at amortized cost in the financial statements approximate their fair value.

	12/31/2013 Carrying value	12/31/2013 Fair value	12/31/2012 Carrying value	12/31/2012 Fair value
Financial liabilities				
Financial liabilities maintained at amortized cost:				
Bank loans	$ 388,486	$ 395,680	$ 396,647	$ 396,647
Long-term bank loans	2,166,281	2,166,281	2,077,533	2,077,533
Debt instruments	2,488,850	2,507,550	–	–
Total	$ 5,043,617	$ 5,069,511	$ 2,474,180	$ 2,474,180

Financial liabilities	Level 1	Level 2
Financial liabilities maintained at amortized cost:		
Bank loans	$ –	$ 395,680
Long-term bank loans	–	2,166,281
Debt instruments	–	2,507,550
Total	$ –	$ 5,069,511

Valuation

a. *Description of valuation techniques, policies and frequency:*

The derivative financial instruments used by Alsea (forwards and swaps) are contracted to reduce the risk of adverse fluctuations in exchange and interest rates. Those instruments require the Entity to exchange cash flows at future fixed dates on the face value or reference value and are valued at fair value.

b. *Liquidity in Derivative Financial Operations:*

1. The resources used to address financial instrument requirements will derive from the resources generated by the issuer.
2. External sources of liquidity: No external sources of financing will be used to address requirements pertaining to derivative financial instruments.

24. Stockholders' equity

Following is a description of the principal features of the stockholders' equity accounts:

a. *Capital stock structure*

The movements in capital stock and premium on share issue are shown below:

	Number of shares		Capital stock (thousands of pesos)		Premium on issuance of share
Figures at January 1, 2012	606,001,924	$	362,461	$	1,092,047
Repurchased shares	11,802,800		5,901		1,090
Dividends declared in shares	16,465,957		8,233		300,669
Purchase of non–controlling interest	–		–		(15,262)
Placement of shares	53,488,373		26,744		1,088,278
Figures at December 31, 2012	687,759,054		403,339	$	2,466,822
Purchase of non–controlling interest	–		–		(429,262)
Placement of shares	–		–		(170)
Figures at December 31, 2013	687,759,054	$	403,339	$	2,037,390

In December 2012, Alsea issued 46,511,628 shares with an overallotment of 6,976,745 shares, which was issued at the offering price of 21.50 (twenty one pesos and fifty cents) per share. The issue was recorded net of placement expenses (see Note 1h.)

In April 2012, Alsea declared dividends in shares of $308,902 by capitalizing the amount corresponding to the after–tax earnings account, in order to cover the subscription value of 16,465,957 shares to be issued and used as payment of the declared dividend in proportion to the 37.52 shares. In order to determine the number of shares to be declared, the price per share was authorized based on the closing price of share of $18.76 (eighteen pesos and 76 cents), of which $0.50 (zero pesos fifty cents) corresponds to the notional amount, and the difference to a premium on share subscription.

In April 2013, Alsea declared a dividend payment of $343,880 with a charge to the after–tax earnings account, which is to be paid against net earnings at the $0.50 (zero pesos fifty cents) per share.

The fixed minimum capital with no withdrawal rights is comprised of Class I shares, while the variable portion is represented by Class II shares, and it must in no case exceed 10 times the value of the minimum capital with no withdrawal rights.

At December 31, 2013 and December 31, 2012, subscribed fixed and variable capital stock is comprised of 687,759,054 common nominative shares with no par value, as shown below:

Description	Number of shares		Amount
Fixed portion of capital stock at December 31, 2013	687,759,054	$	403,339
Fixed portion of capital stock at December 31, 2012	687,759,054	$	403,339
Fixed capital stock	489,157,480	$	304,038
Variable capital stock	128,647,244		64,324
Repurchased shares (par value)	(11,802,800)		(5,901)
Capital stock at January 1, 2012	606,001,924	$	362,461

The National Banking and Securities Commission has established a mechanism that allows the Entity to acquire its own shares in the market, for which purpose a reserve for repurchase of shares must be created and charged to retained earnings, which Alsea has created as of December 31, 2013.

Total repurchased shares must not exceed 5% of total issued shares; they must be replaced in no more than one year, and they are not considered in the payment of dividends.

The premium on the issuance of shares is the difference between the payment for subscribed shares and the par value of those same shares, or their notional value (paid–in capital stock divided by the number of outstanding shares) in the case of shares with no par value, including inflation, at December 31, 2012. Available repurchased shares are reclassified to contributed capital.

In January 2012, Café Sirena, S. de R.L. de C.V. declared a cash dividend of $150,000, paid in proportion to the value of each of the equity participation units comprising the company's capital stock. The amount corresponding to the non–controlling interest totaled $27,000.

In February 2013, Café Sirena, S. de R.L. de C.V. declared a cash dividend of $170,000, which was paid in proportion to the value of each of the equity participation units comprising capital stock. The amount corresponding to the non–controlling interest was $30,600.

In August 2012, it was agreed to convert variable capital stock to fixed minimum capital stock, by converting 145,113,201 single series, Class II shares currently comprising the variable portion of the capital stock to the same number of single series, Class I shares comprising the minimum fixed portion, after which the shareholders continue to hold the same number of shares.

b. *Stockholders' equity restrictions*

I. Five percent of net earnings for the period must be set aside to create the legal reserve until it reaches 20 percent of the capital stock. At December 31, 2013, the legal reserve amounted to $100,736, which amount does not cover the required 20%.

II. Dividends paid from retained earnings are not subject to ISR if paid from the after–tax earnings account (CUFIN), and 30% must be paid on the excess, i.e., the result arrived at by multiplying the dividend paid by a factor of 1.4286. The tax accrued on the dividend payment not arising from the CUFIN must be paid by the Entity and may be credited against corporate IT in the following two years.

25. Non–controlling interest

Following is a deatil of the non–controlling interest:

		Amount
Beginning balance at January 1, 2012	$	298,803
Equity in results for the year ended December 31, 2012		36,880
Café Sirena dividends declared in 2012		(27,000)
Acquisition of the non–controlling interest of Grupo Calpik		(15,172)
Acquisition of the non–controlling interest of Panadería y Alimentos para Food Service		(11,748)
Non–controlling interest resulting from acquisition of Italianni's		26,426
Ending balance at December 31, 2012		308,189
Equity in results for the year ended December 31, 2013		(17,694)
Café Sirena dividends declared in 2013		(30,600)
Non–controlling interest resulting from the acquisition of Burger King Mexicana		217,534
Purchase of non–controlling interest of Café Sirena		(201,445)
Purchase of non–controlling interest of Starbucks Coffee Argentina		(44,109)
Ending balance at December 31, 2013	$	231,875

a. *Acquisition of the non–controlling interest of Starbucks Coffee Argentina–*

The Entity acquired from Starbucks Coffe International (an affiliate of Starbucks Coffee Company) the remaining 18% of Starbucks Coffee Argentina, S.R.L. (Starbucks Argentina), a subsidiary of Alsea that operates the Starbucks Coffee stores in Argentina.

For accounting purposes, the transaction did not constitute a change in control over Starbucks Coffee Argentina prior to the purchase of the non–controlling interest. As the Entity had been previously consolidating with the subsidiary, such accounting remained unchanged.

The change of interest in Starbucks Coffee Argentina by Alsea upon acquisition of the non–controlling interest (from 82% to 100%) qualified as a equity transaction.

Accordingly, the difference between the carrying of the non–controlling interest at the time of acquisition and the fair value of the amount paid was recorded directly in stockholders' equity.

The accounting entry gave rise to a $44,109 decrease in the non–controlling interest.

b. *Acquisition of the non–controlling interest of Starbucks Coffee Mexico*

In April 2013, the Entity acquired from SCI the 18% that it did not hold in Café Sirena, a subsidiary of Alsea that operates in the different Starbucks® stores in Mexico.

For consolidation purposes, the transaction did not constitute a change in control over Café Sirena prior to the purchase of the non–controlling interest. As the Entity had been previously consolidating the subsidiary, such accounting remained unchanged.

The change of interest in Café Sirena by Alsea upon acquisition of the non–controlling interest (from 82% to 100%) qualified as an equity transaction. Accordingly, the difference between the carrying value of the non–controlling interest at the time of acquisition and the fair value of amount paid was recorded directly in stockholders'equity.

The accounting entry gave rise to a decrease in the non–controlling interest of $201,445.

26. Earnings per share

Basic earnings per share is calculated by dividing the net profit for the period attributable to the controlling interest holders of ordinary capital by the average weighted number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the net profit attributable to controlling interest holders of ordinary capital (after adjusting for interest on the convertible preferential shares, if any) by the average weighted ordinary shares outstanding during the year plus average weighted ordinary shares issued when converting all potentially ordinary diluted shares to ordinary shares. For the years ended December 31, 2013 and 2012, the Entity has no potentially dilutive shares, for which reason diluted earnings per share is equal to basic earnings per share.

The following table contains data on income and shares used in calculating basic and diluted earnings per share:

		2013		2012
Net profit (in thousands of pesos):				
Attributable to shareholders	$	681,014	$	364,918
Shares (in thousands of shares):				
Weighted average of shares outstanding		687,514		637,329
Basic earnings per share	$	0.99	$	0.57

27. Revenues

		2013		2012
Revenues from the sale of goods	$	15,305,418	$	13,202,516
Services		249,174		223,685
Royalties		163,951		93,305
Total	$	15,718,543	$	13,519,506

28. Employee benefit expenses

Following are the expenses incurred for employee benefits included under other operating costs and expenses in the consolidated statements of income.

	2013	2012
Wages and salaries	$ 2,837,545	$ 2,552,834
Social Security costs	517,627	309,891
Retirement benefits	27,678	21,923
Total	$ 3,382,850	$ 2,884,648

29. Other income

In 2013 and 2012, this caption is comprised as follows:

	2013	2012
Legal expenses	$ 18,552	$ 1,425
Loss on fixed assets disposals, net	24,386	64,200
PTU on tax base	3,920	4,782
Inflation and interest on tax refund	(24,347)	(2,220)
Other (income) expenses, net	(45,310)	(77,991)
Total	$ (22,799)	$ (9,804)

30. Balances and transactions with related parties

Officer Compensations and Benefits

The total amount of compensation paid by the Entity to its main advisors and officers for the nine – month period ended December 31, 2013 and 2012 was of approximately $159,000 and $109,000, respectively. That amount includes payments determined at a General Stockholders' Meeting for performance of their duties during that year, as well as for salaries and wages.

The Entity continuously reviews salaries, bonuses and other compensation plans in order to ensure more competitive employee compensation conditions.

31. Financial information by segments

The Entity is organized into three large operating divisions comprised of sales of food and beverages in Mexico andn South America and distribution services, all headed by the same management.

The accounting policies of the segments are the same as those of the Entity's described in Note 3.

The Food and Beverages segments in which Alsea in Mexico and Latin America (LATAM) participates are as follows:

Fast Food: This segment has the following features: i) fixed and restricted menus, ii) food for immediate consumption, iii) strict control over individual portions of each ingredient and finished product, and iv) individual packages, among others. This type of segment can be easily accessed and therefore penetration is feasible at any location.

Coffee Shops: Specialized shops where coffee is the main item on the menu. The distinguishing aspects are top quality services and competitive prices, and the image / ambiance is aimed at attracting all types of customers.

Casual Dining: This segment comprises service restaurants where orders are taken from customers and there are also to – go and home delivery services. The image / ambiance of these restaurants is aimed at attracting all types of customers. This segment covers fast food and gourmet restaurants. The main features of casual dining stores are i) easy access, ii) informal dress code, iii) casual atmosphere, iv) modern ambiance, v) simple decor, vi) top quality services, and vii) reasonable prices. Alcoholic beverages are usually sold at those establishments.

Fast Casual Dining: This is a combination of the fast food and casual dining segments.

The Distribution and Production segment is defined as follows:

Distribuidora e Importadora Alsea, S.A. de C.V. (DIA) specializes in domestic purchase, importation, transporting, storage and distribution of frozen, refrigerated and dry food products to supply all Domino's Pizza, Burger King, Starbucks, Chilis Grill & Bar, P.F. Chang's China Bistro, Pei Wei and Italianni's establishments in Mexico.

Additionally, DIA is responsible for preparing and distributing pizza dough to the entire Domino's Pizza System in Mexico.

Panadería y Alimentos para Food Service, S.A. de C.V. This plant produces sandwiches and bread that are supplied to Starbucks and the other Alsea brands. The business model contemplates a central plant located in Lerma, in the State of Mexico, where the Pastry and Bakery products and sandwiches are prepared.

The definition of the operating segments is based on the financial information provided by General Management and it is reported on the same bases as those used internally by each operating segment. Likewise, the performance evaluations of the operating segments are periodically reviewed.

Information on the segments for the years ended December 31, 2013 and 2012 is as follows: (figures in millions of pesos)

Figures in millions of pesos at December 31, 2013

	Food and beverages – Mexico segment		Food and beverages – LATAM segment		Distribution and production segment		Eliminations		Consolidated	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Revenues										
From third parties	$ 10,346	$ 8,752	$ 4,219	$ 3,416	$ 1,130	$ 1,331	$ 24	$ 20	$ 15,719	$ 13,519
Between segments	25	–	–	–	3,200	2,701	(3,225)	(2,701)	–	–
Revenues	10,371	8,752	4,219	3,416	4,330	4,032	(3,201)	(2,681)	15,719	13,519
Costs	3,378	2,957	1,440	1,129	3,615	3,366	(3,205)	(2,696)	5,228	4,756
Other operating										
costs and expenses	5,431	4,421	2,501	2,073	461	459	59	202	8,452	7,155
Depreciation and amortization	637	558	178	168	62	51	47	34	924	811
Interest paid	156	122	54	28	10	9	21	86	241	245
Interest earned	(123)	(76)	(26)	(6)	(2)	–	112	35	(39)	(47)
Other financial expenses	2	13	18	2	–	34	(12)	(57)	8	(8)
	890	757	54	22	184	113	(223)	(285)	905	607
Equity in results of										
associated companies	–	–	–	13	–	–	43	(1)	43	12
Income taxes	201	182	71	49	30	(8)	(17)	(4)	285	219
Results of segments	689	575	(17)	(27)	154	121	(163)	(282)	663	400
Non–controlling interest	–	–	–	–	–	–	–	–	(18)	37
Controlling interest	$ 689	$ 575	$ (17)	$ (27)	$ 154	$ 121	$ (163)	$ (282)	$ 681	$ 363
Assets:	$ 10,564	$ 12,200	$ 2,388	$ 1,294	$ 2,022	$ 1,674	$ (4,562)	$ (6,396)	$ 10,412	$ 8,772
Investment in										
performing assets										
(Investment in associated										
companies)	–	–	–	40	–	–	789	–	789	40
(Investment in fixed										
assets and Int. Assets)	1,031	628	216	277	31	34	(20)	47	1,258	986
Total assets	$ 11,595	$ 12,828	$ 2,604	$ 1,611	$ 2,053	$ 1,708	$ (3,793)	$ (6,349)	$ 12,459	$ 9,798
Total liabilities	$ 6,449	$ 6,556	$ 2,371	$ 1,137	$ 1,335	$ 1,003	$ (2,277)	$ (3,727)	$ 7,878	$ 4,969

32. Foreign currency position

Assets and liabilities expressed in US dollars, shown in the reporting currency at December 31, 2013 and 2012, are as follows:

	Thousands of dollars **2013**	Thousands of dollars 2012
Assets	$ 621,813	$ 484,233
Liabilities	(742,732)	(390,432)
Net monetary asset (liability) position	$ (120,919)	$ 93,802

The exchange rate to the US dollar at December 31, 2013 and 2012 was $13.05 and $13.01, respectively. At February 21, 2014, date of issuance of the financial statements, the exchange rate was $12.3438 to the US dollar.

The exchange rates used in the different conversions to the reporting currency at December 31, 2013 and 2012 and at the date of issuance of these financial statements are shown below:

Country of origin	Currency	Closing exchange rate	Issue February 21, 2014
2013			
Argentina	Argentinian peso (ARP)	2.0108	1.7091
Chile	Chilean peso (CLP)	0.0248	0.0240
Colombia	Colombian peso (COP)	0.0067	0.0065

Country of origin	Currency	Closing exchange rate	Issue March 29, 2013
2012			
Argentina	Argentinian peso (ARP)	2.6486	2.4088
Chile	Chilean peso (CLP)	0.0271	0.0261
Colombia	Colombian peso (COP)	0.0074	0.0067

In converting the figures, the Entity used the following exchange rates:

Foreign transaction	Country of origin	Currency Recording	Functional	Presentation
Fast Food Sudamericana, S. A.	Argentina	ARP	ARP	MXP
Starbucks Coffee Argentina, S. R. L.	Argentina	ARP	ARP	MXP
Asian Bistro Argentina, S.R.L.	Argentina	ARP	ARP	MXP
Fast Food Chile, S. A.	Chile	CLP	CLP	MXP
Asian Food Ltda,	Chile	CLP	CLP	MXP
Dominalco, S. A.	Colombia	COP	COP	MXP
Operadora Alsea en Colombia, S. A.	Colombia	COP	COP	MXP
Asian Bistro Colombia, S.A.S	Colombia	COP	COP	MXP

33. Commitments and contingent liabilities

Commitments:

a. The Entity leases locales to house its stores and distribution centers, as well as certain equipment further to the lease agreements entered into for defined periods (see Note 13).

b. Operating lease agreements cannot be canceled. Future minimum lease payments are as follows:

	2013	2012
1 year or less	$ 917,838	$ 1,049,809
More than 1 to 5 years	4,061,677	3,577,643

c. The Entity has acquired several commitments with respect to the arrangements established in the agreements for purchase of the brands.

d. In the regular course of operations, the Entity acquires commitments derived from supply agreements, which in some cases establish contractual penalties in the event of breach of such agreements.

Contingent liabilities:

In August 2012, Italcafé received an order for an on–site official review by the tax authorities. Such visit concluded in August 2013 with certain observations regarding income that the authorities considered had not been declared and differences in VAT paid. Italcafé is currently in the phase for submitting additional documentation in order to clarify the aforementioned differences. The authorities have a six–month term, that concludes in February 2014, to assess a tax debt of approximately $146 million.

On the basis of the foregoing, Alsea will file an appeal against a possible tax debt. It is important to mention that the former owners of Italcafé will assume the economic effects arising from such tax debt in light of the terms and conditions set forth in the agreements signed by Alsea and the sellers.

Italcafé is entitled to request the intervention of PRODECON (Taxpayer Protection Bureau) to support the Entity with this issue at the Federal District Treasury, which matter is being analyzed and processed by the Entity's external advisors.

34. Financial statement authorization

The enclosed consolidated financial statements were authorized for issuance on February 21, 2014 by Mr. Diego Gaxiola Cuevas, Administration and Financial Director, and therefore they do not reflect any facts that might occur after that date and are subject to the approval of the audit committee and the Entity's stockholders, who can decide to modify them in accordance with the provisions of the Corporations Law.

Mr. Fabián Gosselin Castro
General Director

Mr. Diego Gaxiola Cuevas
Administration and Financial Director

Mr. Alejandro Villarruel Morales
Corporate Controller

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INFORMATION ABOUT ALSEA'S SHARES

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) as of June 25, 1999. Ticker Symbol: BMV ALSEA*

Alsea Annual Report 2013 (BMV: ALSEA*) 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 out of control of Alsea and its subsidiaries.

ABOUT THIS REPORT

Alsea's 2013 Annual Report, "Expanding Our Horizons", is the second Company's integrated report, which reflects Alsea's economic, social and environmental results of the period between January 1st and December 31st, 2013. The results shown are global, unless otherwise specified.

Annually and for the third time, the report is prepared in accordance with the Global Reporting Initiative G3.1 Guidelines. It holds a Self-Declared **B** Application Level; it does not include external assurance, nor information restatements regarding previous years.

The Company is committed to respect the UN Global Compact's Ten Principles in all of its operations; therefore this report displays the initiatives supporting them, as well as for aligning such operations and strategies to the Millennium Development Goals.

Available on **iTunes Store** "Alsea 2013"

This report is available on: **www.alsea.net/annualreport2013**

Our previous reports are available on: **www.alsea.com.mx**

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