

2016

Annual Report

Alsea



The **WINNING** Recipe

Focus on GUESTS

Ingredients:

Brand Portfolio ✓

Best Talent ✓

Best Operator ✓

Cutting - Edge Marketing ✓

Innovation and Technology ✓

Synergy and Critical Mass ✓

Sustainability ✓

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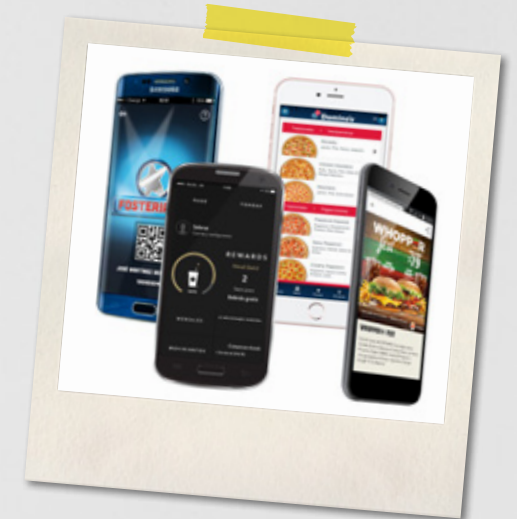
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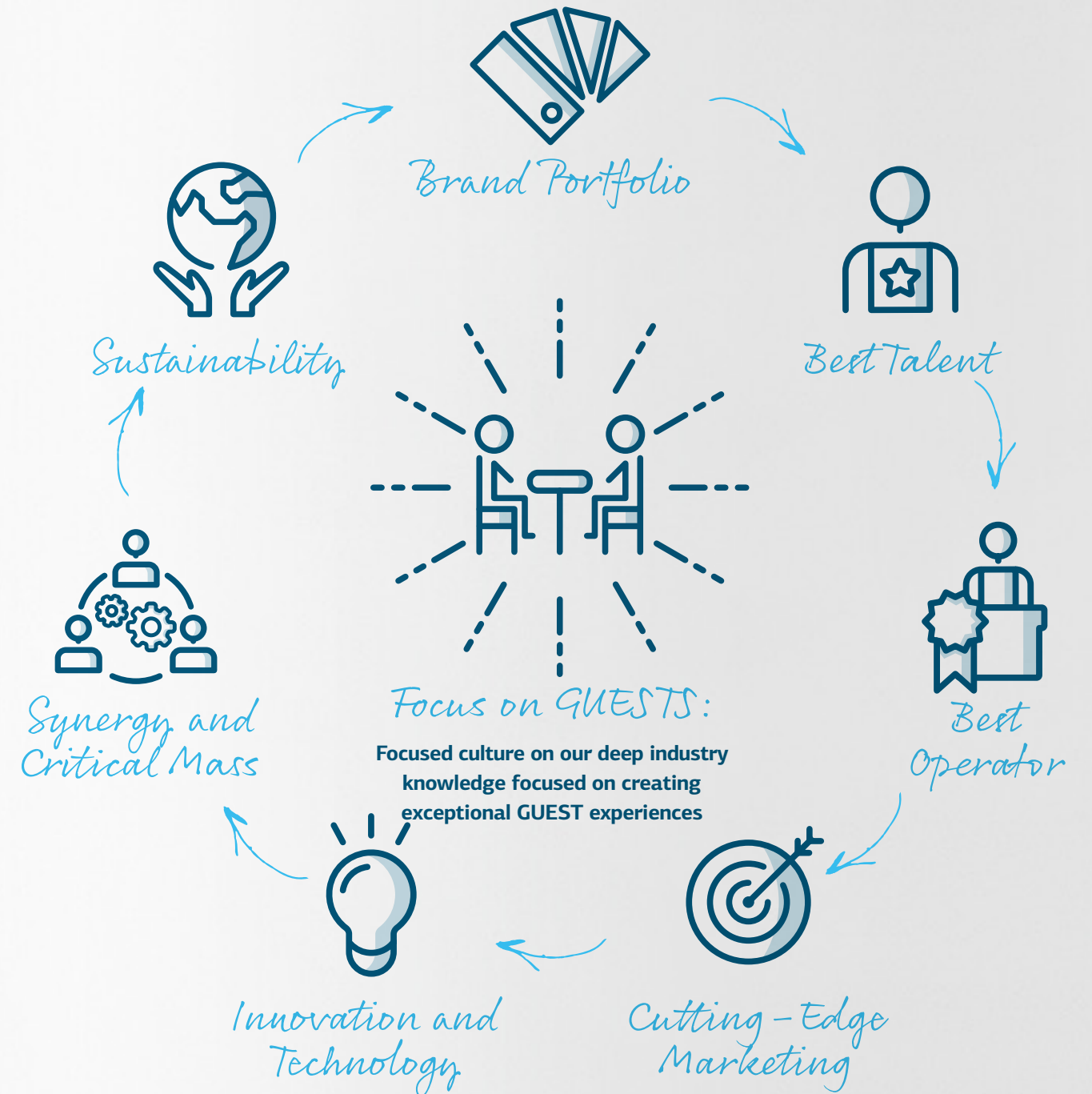


At Alsea, we care about selecting the best ingredients to prepare a recipe centered on our deep industry knowledge and focused on creating exceptional GUEST experiences and thanks to this strategic combination we have achieved to create our winning recipe.



Our winning recipe

The definition of this strategy allows us to set specific indicators for each ingredient, with clear goals and results to achieve sustainable growth.



About Us

[G4-9]

We are the **leading Restaurant operator in Latin America and Spain**, with **recognized Brands** in the Quick Service, Coffee Shop, Casual and Family Dining **segments**.

14 Brands

3,195 Units

67,340 Employees

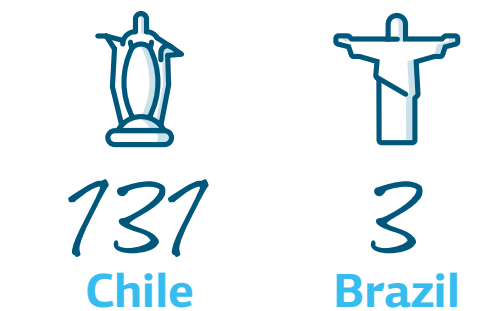
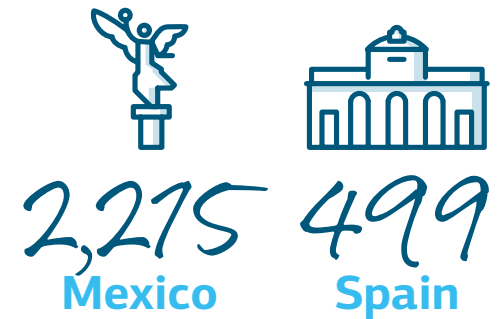


Our business strategy includes a Global Support Center that provides Administrative, Development, and Supply Chain processes for all our Units.

Presence

[G4-6, G4-8, G4-9]

Our **consistent growth** allows us to have a presence in **Mexico, Spain, Argentina, Colombia, Chile, and Brazil**.



Strategic approach

[G4-56]

Each goal we set for ourselves is centered on enhancing our GUESTS' experience and satisfaction. Our strategy is built on five Values and the seven ingredients that make up **our winning recipe** that allows us to fulfill our:





Value proposition

We are a determined community committed to excellence and integrity, we maximize synergies to deliver a surprising offer to our GUESTS and to make sure that our Restaurants generate extraordinary results, contributing with doses of happiness even in the smallest details, to fulfill our purpose of igniting people's spirit.

The Alsea Culture

Focused on deep knowledge and an exceptional GUEST experience.



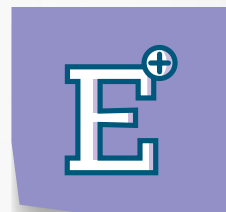
Winning Attitude



Engaged Leadership



Surprising Service



Collaborative Spirit



Attention to Detail



2016 Financial Highlights

[G4-9, G4-EC1]

	Financial Highlights ⁽¹⁾					
	CAGR ⁽⁵⁾	Annual Growth	2016	%	2015	%
Income Statement						
Net Sales	29%	16.8%	37,701.9	100.0%	32,288.4	100.0%
Gross Profit	30%	17.1%	25,922.2	68.8%	22,139.1	68.6%
Operating Income	44%	17.6%	2,767.0	7.3%	2,353.8	7.3%
EBITDA ⁽²⁾	36%	19.8%	5,155.2	13.7%	4,301.7	13.3%
Consolidated Net Profit	37%	9.1%	1,126.5	3.0%	1,032.8	3.2%
Balance Sheet						
Total Assets		15.7%	37,995.1		32,853.5	
Cash		113.1%	2,547.8		1,195.8	
Liabilities with Cost		21.3%	14,839.9		12,233.3	
Major Shareholders' Equity		-0.4%	8,910.6		8,948.2	
Profitability						
ROIC ⁽³⁾		17.2%	10.9%		9.3%	
ROE ⁽⁴⁾		12.5%	11.7%		10.4%	
Stock Information						
Share Price		-0.9%	59.33		59.85	
Earnings per Share		1.7%	1.19		1.17	
Dividend per Share		54.0%	0.77		0.50	
Book Value per Share		-	10.68		10.68	
Shares outstanding (millions)		-0.4%	834.3		837.5	
Operation						
Number of Units	20%	8.2%	3,195		2,954	
Employees	24%	8.9%	67,340		61,822	

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

⁽²⁾ EBITDA means earnings before interest, taxes, 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 means our Compound Annual Growth Rate between 2011 and 2016.

Message from the Chairman of the Board

[G4-1, G4-2, G4-13, G4-EC7, G4-EC8]



Dear Shareholders,

On behalf of our Board of Directors and our more than 67,000 employees, I want to thank you for your continued trust and confidence in Alsea. 2016 was another great year for Alsea, despite the complex global outlook that affected our businesses in Mexico, we managed to achieve an EBITDA margin of 13.7%, which represents a record figure for the last nine years.

During 2016, we continue with our commitment to making Alsea a more institutional Company, complying with the Code of Best Practices with the highest standards of Corporate Governance, generating for you, our shareholders, greater security and confidence, just as we have been doing since our IPO on the Mexican Stock Exchange.

At Alsea, we have the right recipe to maintain our history of growth, which has positioned our Company as the leader in the Restaurant industry in Mexico, for the last 26 years. Our unique business model, which has helped us identify the seven pillars that build up the basis for our success, will help the Company achieve the profitable growth forecast we announced as part of our goals presented at our Analyst and Investors Day on March 8, 2017.

In 2016, we continued to invest in programs that benefit society, our employees, GUESTS and the environment through a Sustainability Model covering four key areas, including Quality of Life, Responsible Consumption, Environment, and Community Support.

Some of our main social programs include the "Its on me" Movement (Movimiento Va por mi Cuenta), where the Alsea Foundation and Brands join forces to build and operate dining centers for children living in food poverty under the "Our Diner" concept.

In 2016, we built another dining center for children and served more than 365,000 meals at our six dining centers in Mexico, benefiting more than 2,200 children every day, with the help of more than 20,000 of our employees and more than MXN 20.5 million raised for this effort.

We have demonstrated a responsible and solid business behavior, we continue being part of the Sustainability Index of the Mexican Stock Exchange for the fourth year in a row. This year, we also joined the Movement for a Healthy Life (Movimiento por una Vida Saludable), creating value for our business, employees, and shareholders alike.

We will face the challenges and opportunities that 2017 brings with the same passion and collaborative spirit that has led Alsea to its market leader position. We will continue working with our employees to generate the returns expected by our shareholders and offer our GUESTS experiences that make us proud.

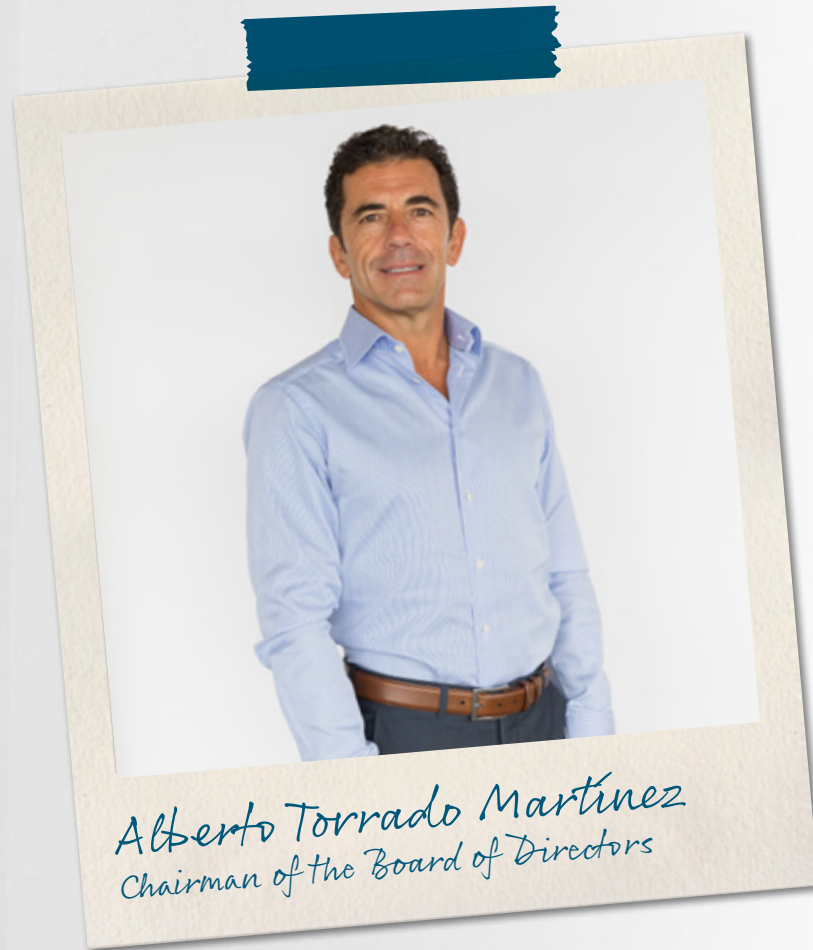
Sincerely yours,

Alberto Torrado Martínez
Chairman of the Board of Directors



Message from the CEO

[G4-1, G4-2, G4-13, G4-EC7, G4-EC8]



*Alberto Torrado Martínez
Chairman of the Board of Directors*

Dear Shareholders,

2016 was another great year for Alsea, as we exceeded our sales and profitability goals despite the exchange rate fluctuations effects produced during the second half of the year. These results were solid and consistent across our Brands and countries we serve, noting the progress we continue to make with our leadership and team development programs. During 2016, we served a record number of GUESTS, offering them better value proposals and further consolidating our leadership position.

Global sales grew to MXN 37.702 billion for a 16.8% increase, exceeding our minimum target of 15%. This is the result of the 8.9% growth in store sales and 241 new units, for a total of 3,195 Restaurants, representing 8.2% growth year-over-year. Gross profit was up 17.1%, and our EBITDA margin grew 19.8% to MXN 5.155 billion at the end of 2016, a 40-basis point increase reaching 13.7%. These results led to an ROIC of 10.9% and a ROE of 11.7%.

We currently have more than 67,000 employees, who are a key factor in Alsea's progress and success, and the reason why we have consolidated our human resources strategy and culture while improving our training and compensation programs by giving them the best work tools to improve the GUEST experience and our Restaurant operations.

2017 will be a special year for Alsea, given that the Board of Directors appointed Renzo Casillo as our new CEO at the end of 2016, as a strategic decision that will consolidate our structure and accelerate our Company's institutionalization process. Alsea is ready to open a new chapter, and Renzo is the right person to guide us into this bright future. We are certain that our team, coordinated by Renzo, will maintain Alsea's growth, improving margins and helping us achieve our goal of being the number one Company in the global Restaurant industry.

We will continue with our saving of administrative costs and operating efficiencies plan in order to through these actions we achieve to compensate part of the pressure in margins derived from the effects we estimated for the year; as we face a more volatile and uncertain market, we are keeping a very close eye on the variables that could impact our results, such as exchange rates, interest rates, and consumer environment. We will also continue to focus on continued operational improvements in all our establishments, creating value for our shareholders and providing the best service and value to our GUESTS.

All this will help us achieve the goals we have set for 2021, which include a compound annual growth rate above 15% in terms of total sales, which will allow us to ensure an EBITDA margin above 15%.

I am pleased to welcome Renzo and ask that he share his vision and outlook for Alsea looking forward.



I am very proud to have joined the Alsea's family, a Company with a winning culture, a team that is passionate about success and has a long history of consistent achievements. This is the basis that will help us to achieve the objectives we have laid out for the future.

During 2017, we will increase our focus on GUESTS by consolidating and applying the use of our recipe with the seven ingredients comprising our winning culture:

1. Together with our partners, **strengthen and accelerate the development of the best and most profitable Brands** in the countries where we participate.
2. Have the **Best Talent** in the market, as we focus on attracting, maintaining, and developing the best human capital.
3. Be the **Best Operator**, redefining the GUESTS' experience and becoming even more productive and effective.

4. Implement the best **Cutting-Edge Marketing** strategies, focused on increasing GUESTS' loyalty and frequency and becoming the Company that has the best knowledge of the industry, competition, and consumer.
5. Use cutting-edge **Innovation and Technology** tools to facilitate operations and provide access to up-to-date information to enhance our decision-making processes and forge a closer and more effective relationship with our GUESTS.
6. Capitalize the **Synergy and Critical Mass** that we achieve with our solid business model.
7. Align our **Sustainability** objectives with our operations based on the four pillars that characterize our Company: COMMUNITY SUPPORT, RESPONSIBLE CONSUMPTION, QUALITY OF LIFE, AND THE ENVIRONMENT.

Our "Alsea's Culture" will continue to play a fundamental role in driving our commitment to our employees who are responsible for ensuring that our GUESTS have the best experience.

We want to thank all our GUEST and employees for their trust and preference. We have the winning recipe, and we will continue using it to reinforce our role as the industry leader.

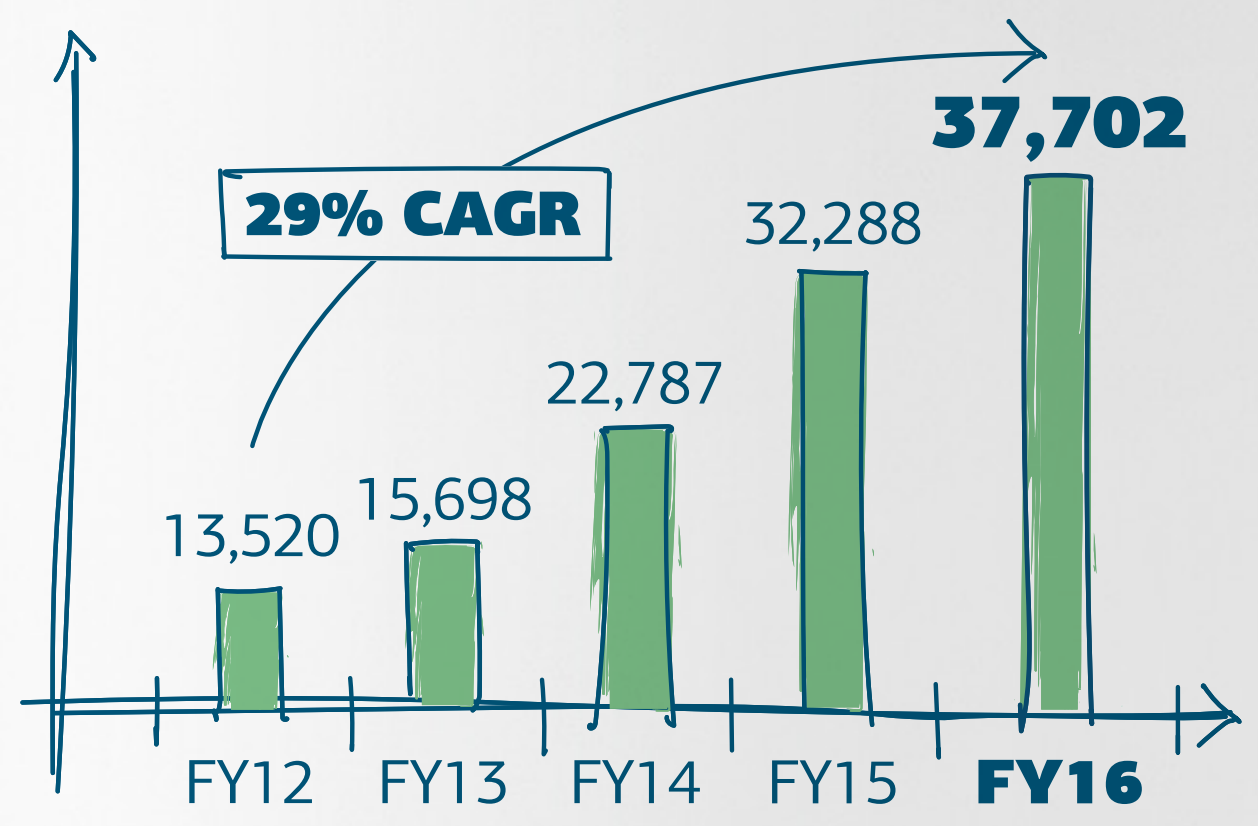
Very best regards,

Alberto Torrado Martínez
Chairman of the Board of Directors

Renzo Casillo Nielsen
CEO



Annual Sales

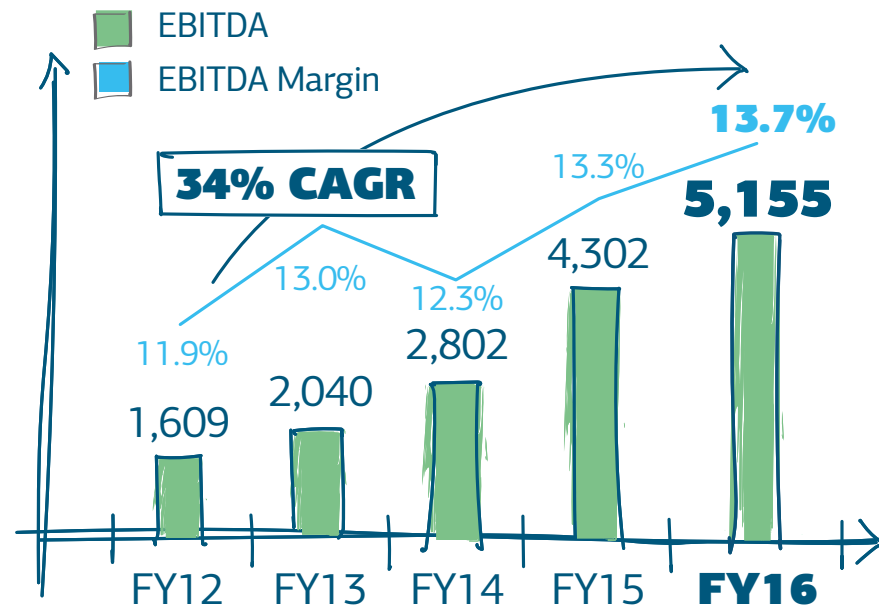


In 2016, we successfully **increased our sales** by **16.8%** compared to the previous year.

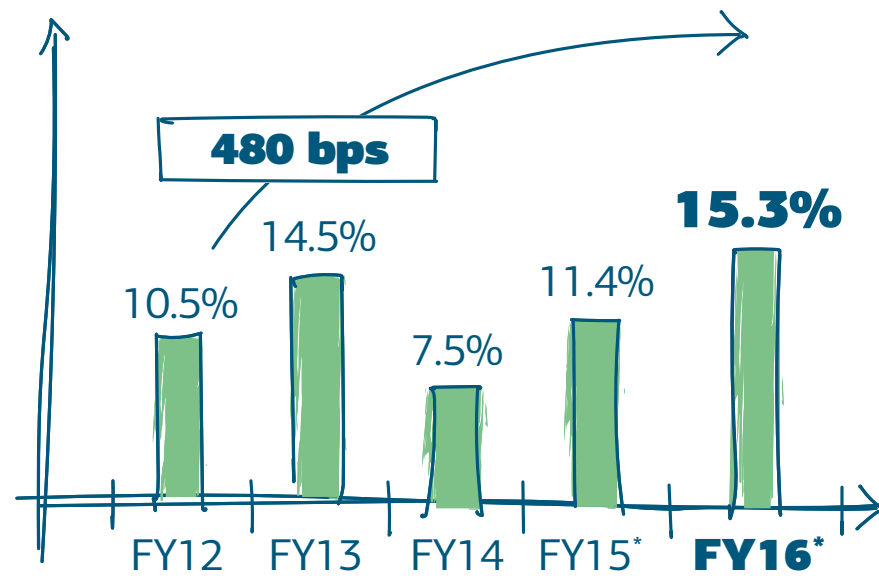




EBITDA

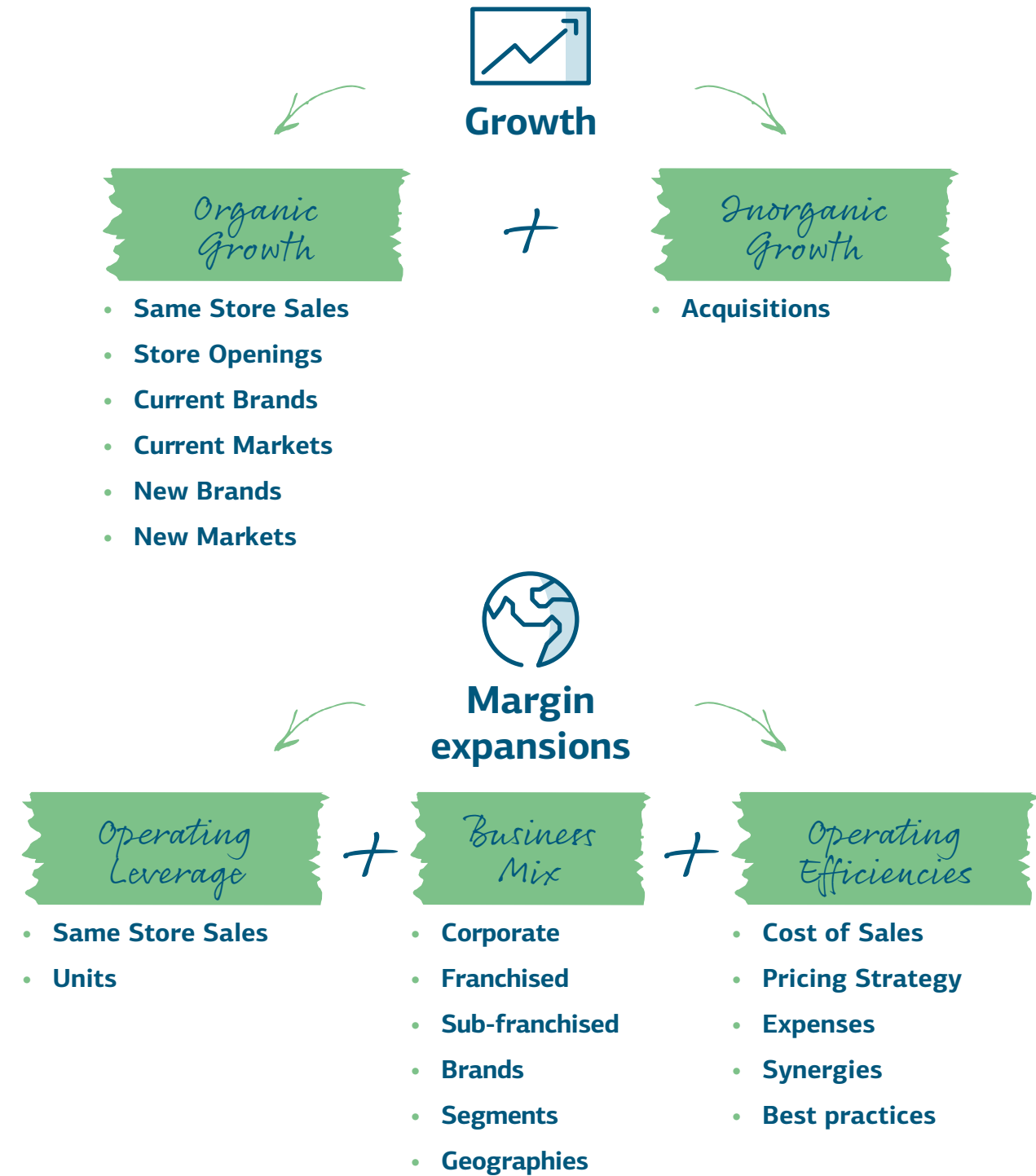


ROE



* Without considering the effects of the Put / Call options.

Growth Model





To have the best relevant and profitable Brand Portfolio, with the best strategic partners, optimizing the global expansion potential for each one of these.



[G4-4, G4-9]

Global Brands



Own Brands



+475 million GUESTS served.

4 segments

3,195 total units

2,502 corporate

693 subfranchises

241 net openings

1,590 Quick Service Restaurants

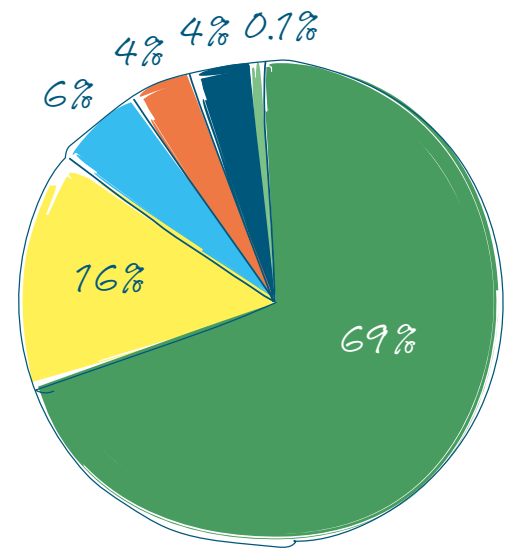
803 Coffee Shops

547 Casual Dining Restaurants

267 Family Dining Restaurants

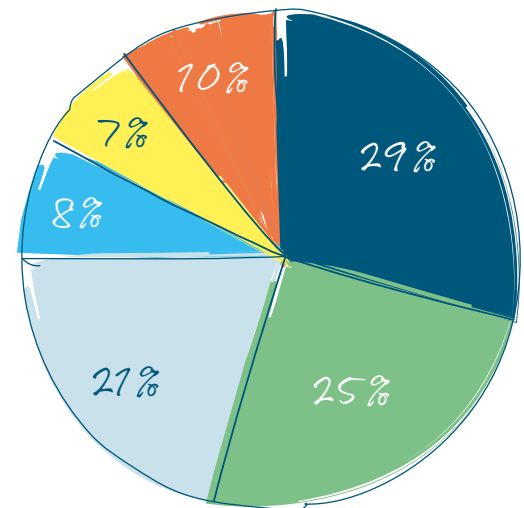


Our Restaurant Distribution



- By Country***
- Mexico
 - Spain
 - Argentina
 - Colombia
 - Chile
 - Brazil

* Percentages may not sum to total due to rounding.



- By Brand**
- Domino's
 - Starbucks
 - Burger King
 - Vips
 - Foster's Hollywood
 - Others*

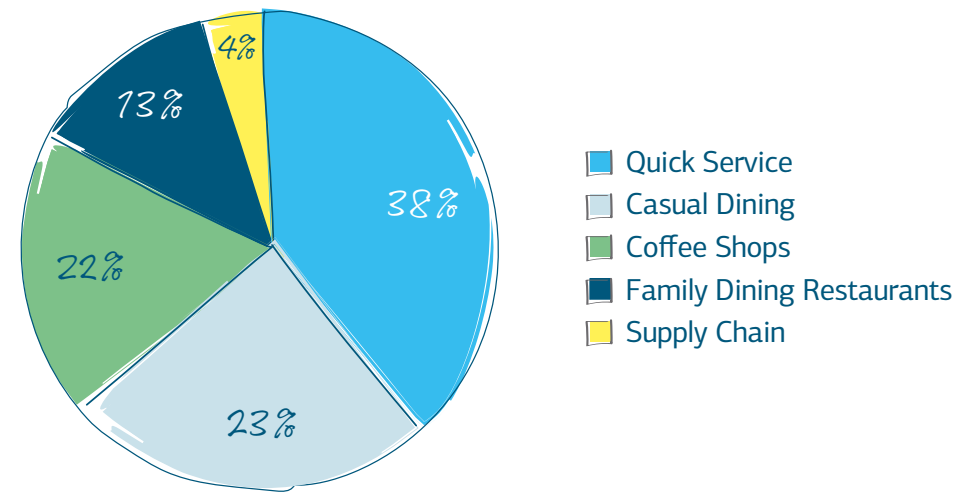
* Others include: Italianni's (2%), El Portón (2%), Chili's (2%), Archie's (1%), P.F. Chang's (1%), California Pizza Kitchen, Cañas y Tapas, LAVACA, The Cheesecake Factory, Il Tempietto (2%).

This year, we **opened a record** number of **158 corporate units**.

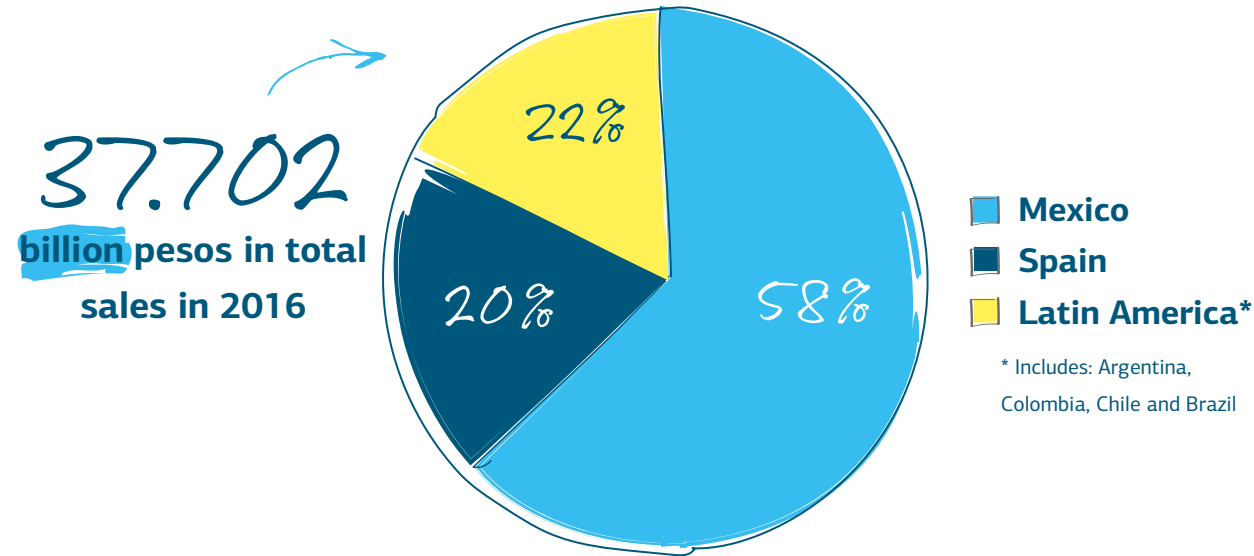
Presence [G4-9]



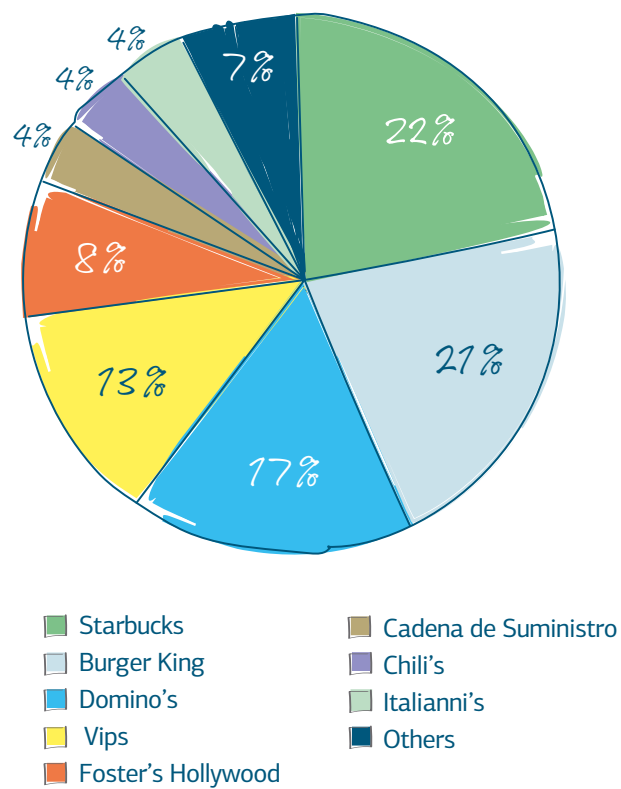
Sales by Segment [G4-9]



Sales by geography



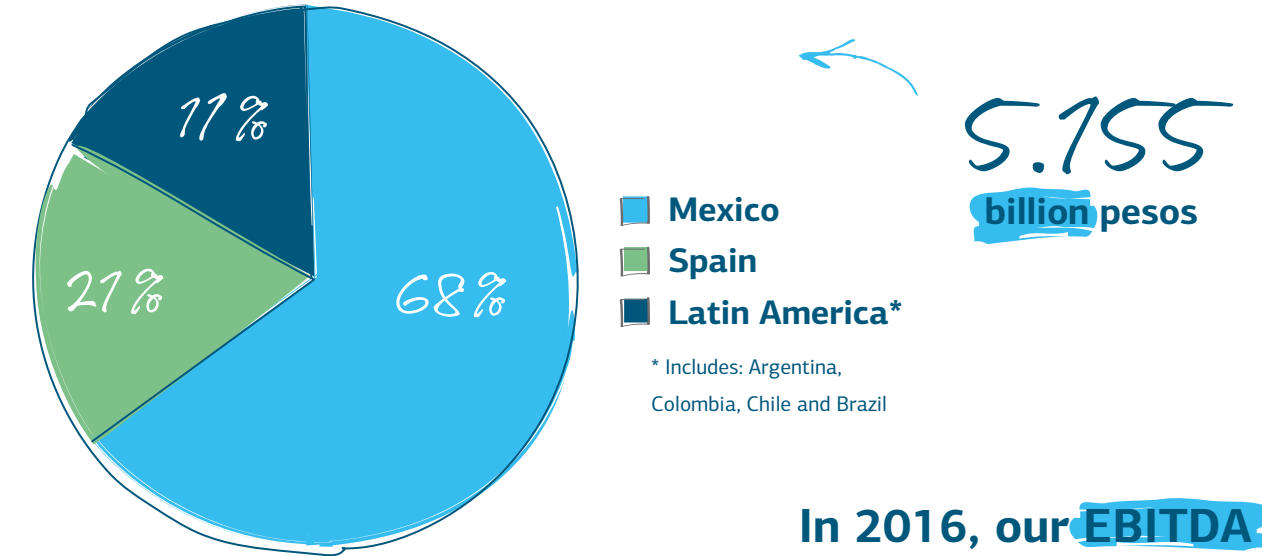
Sales by Brand [G4-9]



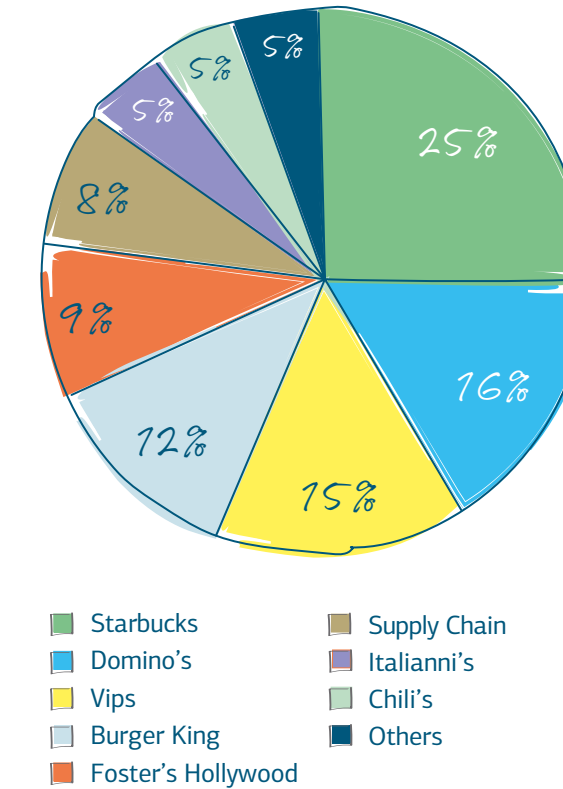
* Others include: El Portón (2%), P.F. Chang's (2%), California Pizza Kitchen (1%), Archie's (1%), Cañas y Tapas, LAVACA, The Cheesecake Factory, Il Tempietto (1%).



EBITDA by geography



Adjusted EBITDA by Brand



* Others include: P.F. Chang's (2%), El Portón (2%), California Pizza Kitchen, Archie's, Cañas y Tapas, LAVACA, The Cheesecake Factory, Il Tempietto (1%).

In 2016, our **EBITDA** margin was **13.7%**, a **record** year for us compared to the last **nine years**.

Challenges:

- Guarantee our growth model with the right portfolio of Brands.
- Accelerate participation in the different markets where we have a presence.
- Identify countries, segments, and Brands that complement our portfolio.



We attract, retain and develop the best talent in the industry.



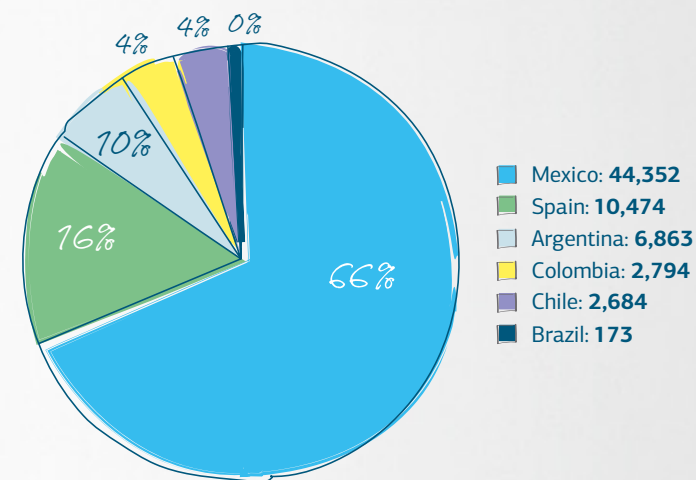
Employees

[G4-9, G4-10]

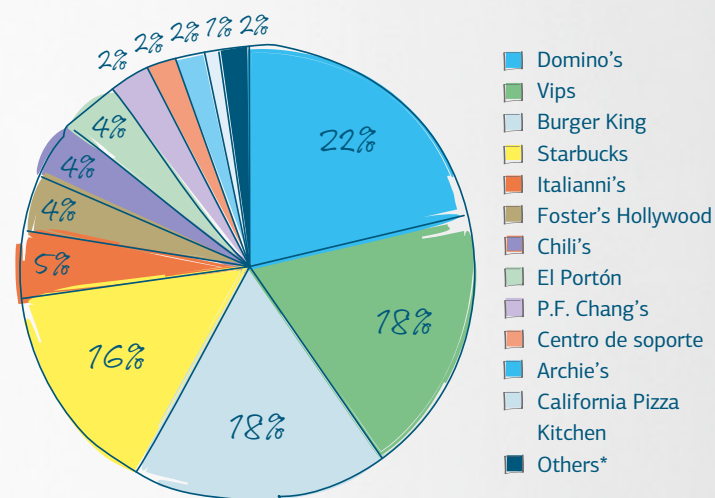
The Collaborative Spirit is part of our success since we use it to bring our ideas and talent together to multiply our results. Just like every ingredient is special and essential in a recipe, so is the contribution of each one of our employees to the Company's growth.

In 2016, we employed **67,340** people from the different regions in which we operate.

Total Employees by Region



Total Employees by Brand



* Others Include: Cañas y Tapas, LAVACA, The Cheesecake Factory, Supply Chain, Il Tempietto.

One of the **main ingredients** in our **winning recipe** is **making sure we have the best talent** available, as our employees **create the GUEST experience**.





We offer job opportunities to everyone with a spirit of learning and collaboration.

Talent Attraction

We have programs that guarantee an effective selection process to ensure our sustainable, accelerated and profitable business growth.

In Mexico, we created **Únete**, the Alsea Talent Attraction Center that helps Restaurant Managers to implement the process for each establishment and making sure all vacancies are filled.

The **Únete** Center also provides the following support:

- Mass recruitment drives for critical establishments and zones
- Promoting job vacancies on social networks and job sites
- Institutional partnerships
- Branding for Alsea and its Brands to attract talent to the Restaurants

In Spain, **El trabajo que se adapta a ti** (The Job That Best Fits You) program helps hire and retain young employees under age 25 for the Company, promoting benefits that are attractive to this segment, such as offering flexible work schedules so they can work and go to school at the same time, ensuring a workplace that is close to their homes, and developing skills and talent to help them grow in the business.



New Talent

[G4-LA1]

New Hires by Age Group

	Under 30	31-50	Over 51
Mexico	83%	16%	1%
Spain	85%	14%	0%
Argentina	99%	1%	0%
Colombia	74%	25%	1%
Chile	94%	6%	1%
Brazil	45%	48%	7%
Total	84%	15%	1%

In 2016, the growth of our operations created more than **3,000 new jobs.**

Internal Promotions

One of the greatest benefits our Company offers is the opportunity for multi-Brand growth, providing learning opportunities across all operations.

	Internal Promotions	%
Mexico	4,488	11%
Spain	667	7%
Argentina	42	1%
Colombia	252	9%
Chile	430	15%
Brazil	32	18%
Total	5,911	9%

We seek to help young people access the job market, which is why **84%** of our new hires were under age 30.

In 2016, we promoted **9%** of our employees.

We filled **5,911 vacancies** with **internal talent** in 2016

We develop
our employees' talent by nurturing their personal and professional growth.

In 2016, we reported a **63%** management stability rate



Training [G4-LA9]

We are committed to the well-being of our employees, which is why we implement strategies that help nurture their growth through training and career development plans, focused on maximizing their skills and abilities by providing the tools they need to reach their full potential.

We care about our people's development and stability, which is why we offer our managers:

- Training courses and workshops
- Career development plans
- Enhanced compensation plans aligning incentives with results

We define our training program based on each Brand's Training Needs Analysis (TNA) to offer operational, technical, leadership, and personal courses. We also apply satisfaction studies to understand the impact the training produced on each employee in his or her daily activities, while also providing suggestions about room for improvement.

1,578,113 hours of training

32.7 hours of training per employee



Average Hours of Training taught by the Support Center

	Average per employee	Women	Men
Mexico	28.5	34	23
Spain	25	30	20
Argentina	33.68	38.45	28.91
Colombia	6.12	6.72	5.52
Chile	19.5	25	14
Brazil	4	4	4

Average Hours of Training in Operations

	Average per employee	Women	Men
Mexico	249.5	266	233
Spain	9	9	9
Argentina	1.35	1.59	1.12
Colombia	5.5	7	4
Chile	9	9	9
Brazil	2	2	2

Preparing the Team of the Future

High potential employees

	Support Center	%	Operation	%
Mexico	219	14%	1,900	4%
Spain	35	12%	101	1%
Argentina	16	5%	NA*	NA*
Colombia	2	1%	12	1%
Chile	17	9%	251	10%
Brazil	3	60%	12	7%

* Not Available



Culture

The Alsea's World comprises 14 Brands whose cultures guide the daily activities of our Restaurants. Our Brands are embodied in the five Culture Values that characterize Alsea, which exemplifies the day-to-day activities of our employees and constitute a competitive advantage for the Company, reflecting how we look after the business, drive the development of our employees and exceed our GUESTS' expectations.

Winning Attitude:

Showing our passion for excellence to reach even higher goals.

Involved Leadership:

Driving the success of our Restaurants and looking after the business as if it were our own.

Surprising Service:

Consistently increasing our standards of satisfaction to serve and surprise.

Collaborative Spirit:

Pooling ideas and talent to create a community that multiplies results.

Attention to Detail:

Continuously improve to consolidate the Alsea experience through impeccable execution.

These Values show how we embody our Winning Culture that consistently challenges us to do a better job, never settle for second best, and always exceed our GUESTS' expectations.

We held the Alsea **Ganar es lo Nuestro** (Winning is what we do) Convention to announce this cultural shift that will help us meet our new goals and the course the Company has charted for the next five years. The Convention, which was held in Acapulco, Guerrero and presided by the Chairman of the Board of Directors and the Alsea Mexico and Alsea International Divisions, was attended by the best Restaurant Managers that the Company brought in as recognition of their outstanding management skills.

2016 Employee Commitment (ECO) Survey

At Alsea, we have always been known for our focus on our employees. Just as we cater to our GUESTS, we also focus our attention on our more than 67,000 employees who are at the heart of this organization. In order to ensure an exceptional workplace experience, during 2016 we applied the ECO Survey to measure their Commitment; that is, their engagement and enthusiasm levels, and their emotional connection with Alsea.



The questions on the Engagement Survey are directly related to our business indicators, such as turnover, product quality, GUEST Service, productivity and profitability, among others.

We know that commitment comes with time and as a process, leading to higher levels of organizational wellness producing better results.

	% participation	Commitment
Mexico	92%	4.03
Spain	84%	3.68
Argentina	91%	3.75
Colombia	90%	3.72
Chile	90%	3.89
Brazil	91%	3.74
Global	92%	3.92

We achieved **92% global participation** and a 3.92 score (on a scale of 1 to 5). Since this is the first time we've applied the survey, we will use these results as the baseline to set our goals and improve our score with Effective Impact Plans.

3,054

Leaders with access to a results report with their teams' commitment indicators.

The ECO methodology allows every leader within the Company, from Restaurant Managers on up, to see their teams' Commitment level.

According to the ECO methodology, leaders are responsible for a 70% commitment level, which is a clear example of how we consistently empower Managers to make sure they are applying the right leadership skills, in addition to nurturing stronger employee engagement levels.

Over the coming year, leaders will be responsible for working with their teams to create an Effective Impact Plan to drive employee commitment.



Alsea's Manager of the Year
Matías Medina
Burger King Argentina,
with Pablo de los Heros, Country Manager
for Alsea Argentina

Recognition

At Alsea, we value each one of our employee's contributions, and consistently create recognition programs to thank them for their hard work. These plans include the "Best Manager" award for each one of our Brands and countries, based on the results obtained in Same Store Sales, EBITDA, Turnover, GUEST Service, and Quality Audits.

The winners of the Best Manager awards receive a cash prize and a training trip to an Alsea market.

We also select the best of the best who are presented with the "Alsea Manager" award and a larger cash prize.

Both the Company and our Brands believe that it is vitally important to nurture our Brands' core Values, which is why we have specific award programs to thank our employees and recognize their hard work.

We also encourage our employees to come up with innovative ideas, helping us to constantly import new concepts from one country to another. For example, Brazil implemented the Mexico "Wok Master" plan, encouraging P.F. Chang's employees to come up with new dishes, which are submitted to votes, with the winner being included in the Restaurant menu.



Challenges:

- Continue to consolidate the Alsea Culture.
- Create new compensation models to attract and retain the best talent available.
- Open academies to institutionalize knowledge in operations, marketing, acquisitions, and real estate.



To be the Best Operator, redefining the GUEST experience, and becoming even more productive and effective, to offer the best products, service, image, and value in the industry.



"Enlace"

In 2016, we decided to capitalize on the knowledge of our Brands by implementing the Liaison or Enlace System, to make sure that our Restaurants meet the highest operation and experience standards.

This support system for our Restaurants facilitates coordination between the strategic departments that have the greatest impact on our operations, including the Supply Chain, Maintenance, Information, Marketing, Teams, Technology, Quality Assurance, and Human Resources.

We offer the **highest quality standards** at all our Restaurants to **make sure our customers feel like invited GUESTS.**





How to be the best operator

By Having the
 Best Talent

Operating the
 Best Store

Offering the
 Best Service

Providing the
 Best Experience



All our Restaurants use operational evaluations that allow us to conduct exhaustive health and safety analyses. We also have a tool to evaluate GUEST satisfaction by listening to their comments.

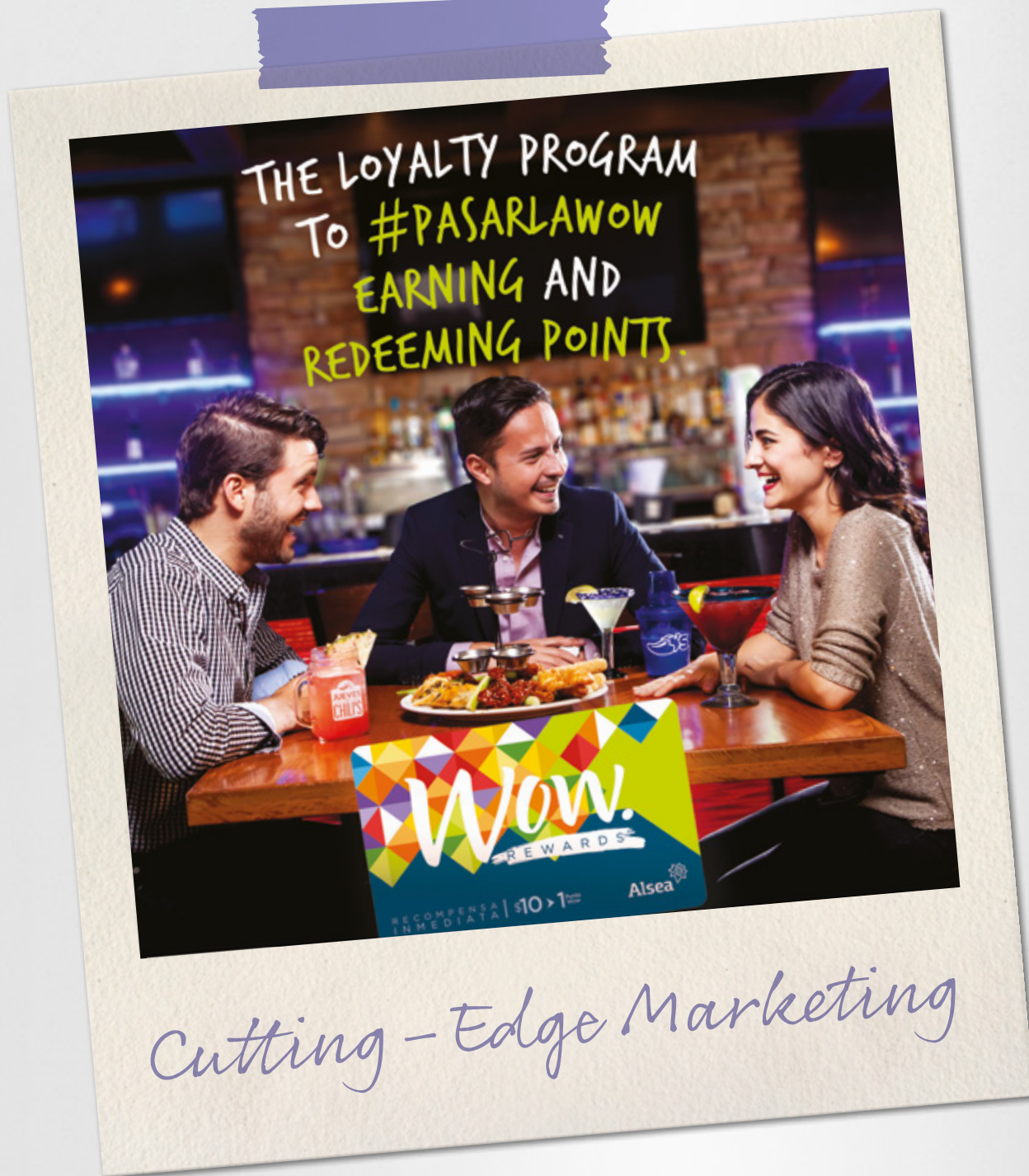
Challenges:

- Drive traffic by consistently redefining and improving our GUEST experience.
- Compare and optimize productivity and GUEST satisfaction metrics.
- Optimize and expand the Restaurant supervision process and tracking system.





To implement the best Marketing strategies centered on GUEST loyalty by increasing visit frequency, making us the Company that has the best knowledge of the industry, the competition, and our GUESTS.



Cutting-Edge Marketing



One of the strongest pillars of our winning recipe consists of optimizing resources through simple, efficient, and effective management activities. Our Marketing department implements innovative advertising, promotion, and public relations programs targeting each one of our Brand's key audiences.

These measures contributes to **maintain** the **GUEST loyalty**, consequently, to our **solid Same Store Sales growth**.



Right equipment and tools

Well-Timed and Reliable Information

Decision-Making Support

Business Intelligence

Improve Strategy

Spot New Opportunities



Shared Services



Goals:

- Become the Company that has the best knowledge of the industry, the competition, and GUESTS.
- Build a culture, team, skills, and superior information analysis tools, resulting in more effective programs to attract and retain GUESTS.
- Develop digital and technological tools (CRM) to leverage the Alsea portfolio and create an ecosystem that promotes loyalty, frequent visits, and sales in and among our Brands.
- Build up our Centers of Expertise in Media, Public Relations, Market Research, and Strategic Alliances to add more value to our Brands.

CRM & Customer Technology

We use our loyalty programs to obtain information about our GUESTS' behavior, our products, and our Restaurants.

We have powerful analytical tools that have helped us segment our GUESTS, offering targeted communications, according to their individual profiles.

We have developed a multidisciplinary team that involves technological and analytical staff (Customer Technology), strategy (Brand and GUEST Communication) and operational (communication with the Staff of the Restaurants) that allows us to have a 360° vision and impact.

Loyalty Programs

In Mexico, we continue to develop our Wow Rewards loyalty program, which we featured in Vips, El Portón, and The Cheesecake Factory in 2016, which means that nine of our Brands are now part of the program.

Wow Rewards is now part of 5% of Alsea's total transactions and has successfully increased the average bill at our Brands by more than 30%.

My Starbucks Rewards has one million users in Mexico and is present in 25% of the Brand's transactions nationwide, with more than 38,000 users in Chile impacting 14% of all transactions.



By the end of 2016, we had a base of **500,000** Wow Rewards loyalty program users.

Challenges:

- To be the Company with the best knowledge about our GUESTS, the market, and the competition.
- Have the best loyalty and analytical skills program.
- Have an experience center that adds value to our Brands.



Use next generation Technology and Innovation tools to facilitate the operation and provide access to timely information to best support our decision-making processes.



Technology Tools

Our goal is to become the digital communication leaders as this is a priority communication channel for many of our GUESTS. We also use technology to facilitate Restaurant operations and management.



Restaurants

At Asea, we work hard to ensure that our Restaurants have technological tools that contribute with our GUESTS to having an experience that exceeds your expectations.

Management

We provide ongoing management tools and information to our brands team to facilitate the analysis and decision making.

2016 Achievements

- We migrated from the Oracle suite to Version 12, ensuring our global consolidation in a single process.
- We released the Enlace mobile tool to support our operations "Management Model."
- We released a tool to promote and manage "Digital Coupon" campaigns.
- We implemented the My Starbucks Rewards program in Chile.
- We added Vips, El Portón and The Cheesecake Factory Brands into WOW Rewards loyalty program in Mexico.

Challenges:

- To provide our Restaurants with technology to ensure the best operation and GUEST experience.
- Be the leader in mobile and digital strategies.
- Develop systems that optimize and simplify our Restaurants' management and support processes.





Resources, efficiencies, and best practices to ensure competitive advantages for each Brand in our portfolio, capitalizing on the Synergies and Critical Mass we will reach with our solid business model.



Synergy and Critical Mass

Our commitments: provide the service Restaurants need to ensure the proper supply of inputs, guaranteeing the quality and food safety of our products, at the best cost, through skilled staff members engaged in efficient and effective operations, supported with the best technology by building synergies between our Brands.



Value Chain

[G4-12, G4-LA14, G4-LA15, G4-HR5, G4-HR6, G4-HR10, G4-HR11, G4-SO3, G4-SO9, G4-SO10]

At Alsea, we work closely with our supply chain to ensure that the products we offer our GUESTS come from reliable suppliers who are committed to sustainability activities that are relevant to our business.

We also comply with matters related to human rights as a priority for everyone who is part of this Company, given that these actions produce an impact on all our stakeholders.

The Legal Charter is a document for our suppliers that aims to identify risks and establish courses of action to be taken regarding legal issues.

We work hard to **guarantee** that our **support** departments **create real value** by providing **on-going** support for our **Restaurants**.



Furthermore, our Purchasing Department has created Supplier Rights and Obligations guidelines in which we state that any supplier who violates our code of ethics will be declared ineligible for working with the Company and subject to the corresponding process.

At the end of 2016, we released our Anti-Corruption Policy, which clarifies everything relating to child labor and forced labor.

Quality:

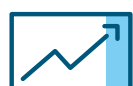


Certification of plants and distribution centers audited in SQF2 and AIB*.*

Cost:



We generate organizational productivity of more than MXN 50 Million, optimizing 20% of the positions, and eliminating one organizational level.



Total absorption of inflation in the cost per operating box, achieving deflation in current pesos against 2015.

Service:



We improved Restaurant service by more than 10 pp. We guarantee the service.

At Alsea, we believe that we still have a long way to go. We are working on a Unified Supplier Contract that includes our sustainability standards, which will be reviewed by the corresponding area.

*Safe Quality Food Institute.

*AIB (American Institute of Baking)

International provides audits, inspections and certifications in food safety.

We strive to implement and be recognized as the best Supply Chain in the Industry.



We are in a constant process of consolidation, forging synergies and best practices to benefit operations.

We have invested in the Alsea Operations Center (COA), which will start operations in Mexico City during the second half of 2017. This will help us consolidate distribution and manufacturing operations to guarantee future growth, improving service and driving productivity and efficiency.

The new COA will have cutting-edge technology to drive the integration and efficiency of production processes, food manufacturing, bakery products, food handling quality and control, logistics, storage, planning, and supply.

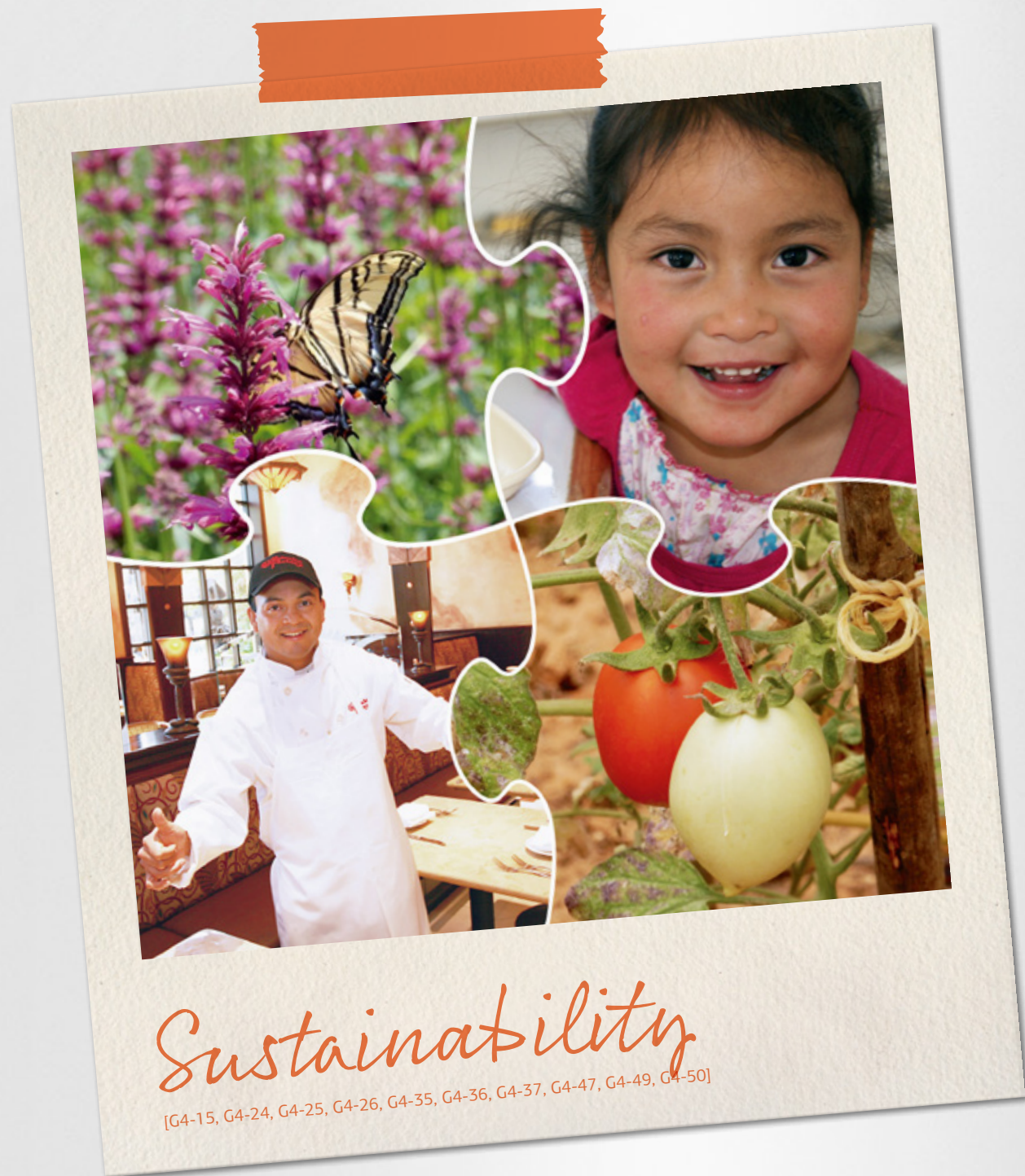
It will also offer support systems to guarantee operational continuity and reduce the use of non-renewable energy.

Challenges:

- Consolidate Alsea's synergies and infrastructure as a competitive advantage for the Brands.
- Implement a global and consistent sharing of best practices.
- Obtain better skills to optimize purchases between Brands and countries.



Positively impact our surroundings through actions that make a difference and contribute to social, economic and environmental development in the countries we operate in.



[G4-15, G4-24, G4-25, G4-26, G4-35, G4-36, G4-37, G4-47, G4-49, G4-50]

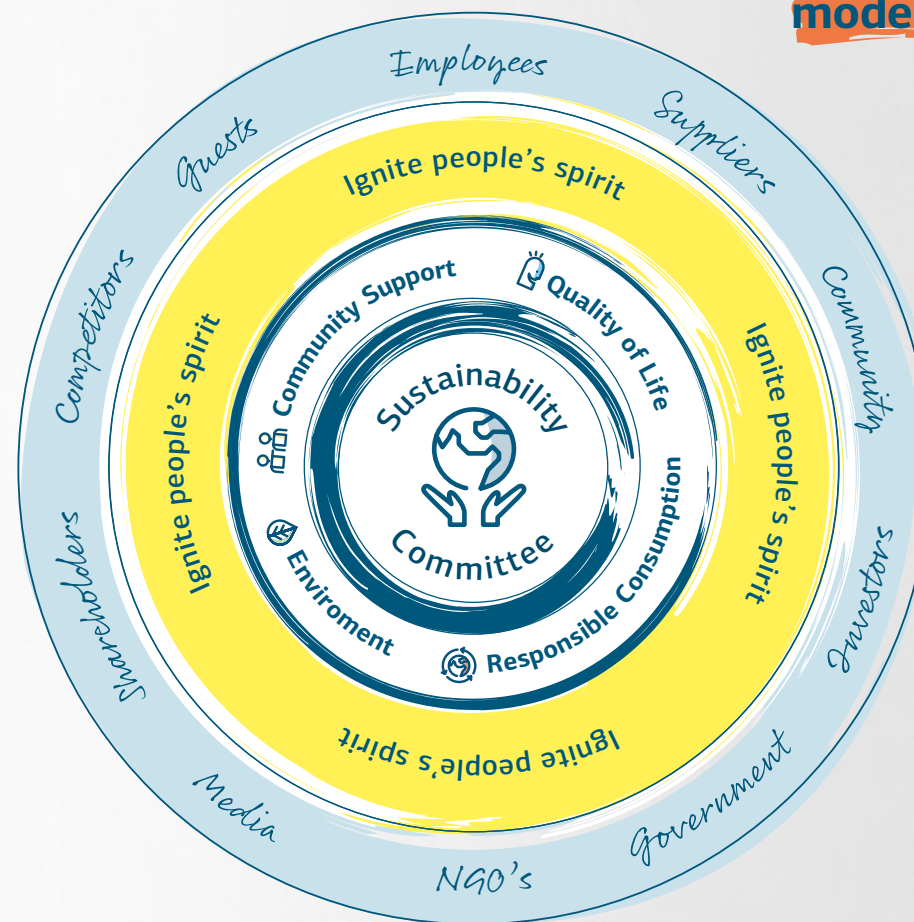
This is one of Alsea's five strategic areas, and represent a fundamental value for our business. This is how we guarantee our contributions to the sustainable economic development and social interests, assuming responsibility for the direct and indirect impact of our activities on our stakeholders.

The management model has four commissions, which guarantee the implementation, compliance, and evaluation of the sustainability plan's objectives, spearheaded by the Company's leaders. Each one of these commissions responds to the needs of Alsea's major stakeholders.

We determine these stakeholders as a result of the impact we have on them and vice-versa, considering teamwork to be an essential element in driving shared value.

We have created diverse communication channels we use to know their needs and expectations, counting on with constant feedback to identify improvement opportunities and work on them.

In 2016, we **migrated** from our **Social Responsibility strategy** to our **Sustainability strategy** given the need to **globalize** our structure and ensure that, in 2017, our **market plans** follow the same **management model**.



- **Sustainability Structure:**
Sustainability Committee and Commissions (Quality of Life, Responsible Consumption, Environment and Community Support)
- **Stakeholders**
- **ALSEA's Purpose**

Below are some of the actions and their results from 2016 plans:



We promote the development of our employees, offering them conditions to help them find the right balance between their personal and professional life.

Education and Development

During 2016, we offered scholarships to

10%

of our High-Potential Managers.

Fully aware of the important role education plays in the development of our employees, we promote a range of programs to help incentivize them to continue their studies.

Aalsea's scholarship

This year we offered to our operations talent, Restaurant Managers and Assistant Managers who are classified as high potential, the chance to finish their undergraduate studies by offering them financial support. Aalsea covers 67% of the tuition fees, and the employee covers the remaining 33%.

900

school kits donated.

Academic Excellence

For the third consecutive year, we have rewarded the academic excellence of our employees' children by helping them to acquire school supplies for their return to class.

Work - Personal Life integration

Through a range of workplace practices and programs, we offer our employees the opportunity to find the right balance between their personal and professional lives, helping to ensure we contribute to their well-being by offering them time to spend with their loved ones and/or for personal issues.

- **Día A+ (Mexico)**
Break Off (Argentina)
This consists of an additional day of leave every semester for operations employees.
- Two consecutive rest days once a month for Restaurant Managers.
- Staggered schedules, Store Office, maternity, paternity or adoption leaves and birthdays.

Wellness

With the objective to protect our employees, we offer them flexible benefits, occupational health programs, alliances with healthcare institutions, physical activities, and disease prevention. Some of the programs implemented during this year include:

The Argentina's team launched the **Aalsea al Máximo** program, as an online benefits program featured as a smartphone app available to 100% of our employees in Argentina to offer entertainment, food, shopping and other benefits.

Results:

- **3,243** downloads of the smartphone app
- **24,038** visits
- **3,152** discount coupons requested

Furthermore, we made an effort to promote the importance of ensuring a healthy emotional balance for Restaurant Managers through tools and awareness campaigns to improve their quality of life. In Argentina, the Wellness program focused on reducing workplace stress levels and transforming teams into high-performance establishments. The program includes a health check-up for each Manager and the implementation of specific steps for their benefit.



Investing in people today means great results in the future.

In Mexico, during 2016, two high-value programs were implemented: the **Caja de Ahorro Maximiza**, which offers our employees access to more attractive rates than those offered by individual savings plans or banks, benefitting 1,974 employees with a net annual rate of 7.45%.

We also launched **Financiera Aalsea**, a program to offer loans for our Restaurant, District and Division Managers, as well as Support Center employees:

- **Cash Loans:** Loans that can be used to cover debts, credit cards, unforeseen expenses and personal issues (up to 1 month's salary).
- **Car Loans:** Loans that can be used to purchase new or used cars (up to 6 month's salary).

* Programs can vary by Region and Brand.



Diversity and inclusion

We believe that gender equality and labor inclusion are an important part of our growth as a Company, which is why we promote programs that help us achieve the goals we have set in this area.

Gender equality

- **48%** of our employees are women

Inclusion

- **209** employees with disabilities
- **70** elderly employees

We report all incidents in accordance with the regulations stipulated by the Mexican Ministry of Labor (STPS) and the Mexican Institute of Social Security (IMSS).

Most common injuries:

- Contusions
- Contractures
- Sprains

We expect to reach our zero-accident goal by 2020.

Health and Safety

[G4-LA3, G4-LA5, G4-LA6]

We are in the process of structuring a safety management system, aligned with the ISO 18001 standards. In order to achieve this goal, our supply chain area, developed the documentary structure that outlines the most relevant indicators on the subject matter.

We also have:

- An annual training program that considers topics such as workplace safety.
- A medical program based on requirements for the food industry and applicable for our operational area
- A healthcare campaign which offers treatment to those who need it.
- Internal health and safety brigades based on legal requirements and regulations.
- A medical team for healthcare programs.



We promote a balanced lifestyle that encompasses the enjoyment of quality food that not only meets people's needs but also has positive social, environmental and economic implications within its lifecycle. We promote healthy interactions in combination with physical activity.

Responsible Communication

Given how important it is for our guests to know where the food they are eating came from, we ensure that Brand's operational strategies guarantee a nutritional information transparency, in order to offer them products that meet their nutritional and wellness needs.

Product, Service, Image and Value

[G4-PR4, G4-PR6, G4-PR9, G4-PR7]

At Alsea, we comply with all applicable local regulations in terms of safety, quality, and labeling of our products. We are committed to exceed the expectations of our consumers and the requirements of the countries in which we operate.

The nutritional values of our main products can be found on our website.





In 2016, we made the labeling review and compliance process faster and more efficient by integrating it into the new product development process, guaranteeing that 100% of the pre-packaged products sold at our Restaurants comply with all applicable regulations.

Our goals for 2017 are:

1. Increase the compliance scope for our imported products used as ingredients at our Restaurants.
2. Maintain compliance of all pre-packaged products sold by Aisea.
3. Continue the training to operational and marketing collaborators in the interpretation of the applicable legislation.
4. Keep the nutritional information of the major products from our Brands up-to-date on our website.

Quality, Security and Food Safety

[G4-PR1, G4-PR2]

At Aisea, our commitment is to meet the needs and expectations of our consumers, ensuring compliance with the highest food safety standards and product quality at our Restaurants.

We use suppliers who meet international safety standards recognized by the Global Food Safety Initiative (GFSI).

Our production and distribution operations use standardized, documented and managed systems to guarantee the quality and safety of our products.

Achievements in 2016:

- One of our manufacturing plants (Comisariato) was awarded with the SQF certification (Safety Quality Food), which is one of the food safety systems recognized by the Global Food Safety Initiative.
- Three Distribution Centers were certified by the AIB (American Institute of Bakery) for complying with best manufacturing and distribution practices.

We have an annual **food safety training** program to ensure the **quality** of our **products** throughout the value chain.

Our goals for 2017:

1. Standardize the quality and safety management system.
2. Increase the scope of certifications recognized by GFSI in our manufacturing and distribution operations.
3. Standardize hygiene practices for operations employees and food handling control. at our Restaurants.

Promotion of Balanced Lifestyles

Each Brand develops a range of programs based on their segment and consumer profile, including:

- **Substitution of soft drink for water in children's menus at Burger King.**
- **P.F. Chang's offers a gluten-free menu.**
- **Vips** in conjunction with Disney, launched a **healthy children's menu** that meets international child nutrition regulations.
- **Aisea** also joined the **"Movimiento por una Vida Saludable"** (MOVISA).

Our suppliers and manufacturing and distribution operations are audited annually by external companies and by our international partners.



In terms of **inclusion**, **Vips** is the first Aisea Brand to offer a **Braille** menu.

Responsible Suppliers

We drive the development of responsible suppliers.

We are currently working with Flor de la Paz on a project to buy organic, loose-leaf tea that is offered at Uips, with 100% of profits being reinvested in the community where it is produced.



This project is located in the State of Mexico, helping to heal the soil using advanced organic production techniques, free from agrochemicals and pesticides, preventing exploitation and respecting the life cycles of the plants produced.

Animal Welfare

At Alsea, we fully understand the importance of promoting animal welfare and protection, which is why we are working alongside our egg suppliers to promote the transition to eggs that come from cage free hens by 2025. This commitment requires the participation of the major egg suppliers in each country in which we operate, ensuring that the cage free egg supply meets the market demand, in addition to ensuring accessible economic conditions for GUESTS.

Fair Trade

[G4-S07]

We ensure that our operations meet fair trade standards in every country in which we operate through Procurement Policies that outline the steps that must be followed and the parties responsible for authorizing transactions.

We promote equal opportunities and the fair and transparent treatment of our suppliers. Furthermore, we guarantee that they meet standards set by our Company, in keeping with our Code of Ethics and our policies. We implement on-going auditing processes to ensure compliance.



We promote environmental conservation through the efficient use of resources.

We develop a range of environmental programs to help ensure more efficient processes that use fewer resources, thus ensuring we protect the areas in which we operate.

Energy and Emissions

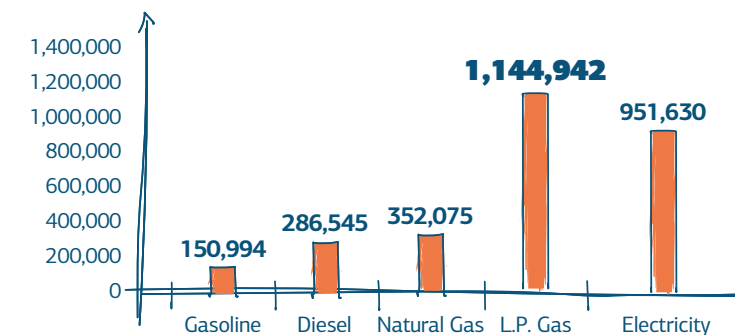
[G4-EN3, G4-EN5, G4-EN6, G4-EN15, G4-EN16, G4-EN18, G4-EN19]

Through our Energy and Sustainability Department, we implement energy saving projects. In 2016, we replaced boilers with high-efficiency heaters at 189 branches, representing a 60% advance in our goal.

We saved
53,970 GJ
by implementing these energy saving projects.

We are subject to the regulations and policies of the Registro Nacional de Emisiones (RENE), where we report our greenhouse gas and other emissions. In this report, we identify each chemical substance by means of an internationally-accepted abbreviation, defined by associations specializing in this area.

Internal Energy Consumption



* Numbers in GJ.
 ** The information contained herein refers only to Mexico.
 *** We do not currently use fuel from renewable sources.
 **** The calculation was made based on real consumption as invoiced by the suppliers of the different fuels.
 ***** To calculate conversion factors, we used the following sources:
 • http://www.semamat.gob.mx/sites/default/files/documentos/cicc/20150915_guia_rene.pdf
 • IPCC, 2006. "2006 IPCC Guidelines for National Greenhouse Gas Inventories", Volume 2. [Chapter 2 – Stationary Combustion. Table 2.2]

We decreased our CO₂ emissions by 3,401 tons thanks to the substitution of boilers.

In 2016, our energy intensity was 155,678.28 kWh, taking into account electrical energy alone. For the calculations, we divided the kWh billed by the Restaurants by the number of Restaurants.

Direct Greenhouse Gas Emissions (Scope 1)	123,595 tons of CO ₂ /year*
Indirect Greenhouse Gas Emissions from Energy Generation (Scope 2)	120,540 tons of CO ₂ /year
Intensity of Greenhouse Gas Emissions	144 tons of CO ₂ /year
Reduction of Greenhouse Gas Emissions	3,401 tons of CO ₂ /year

The information contained herein refers only to Mexico.
 *RENE Methodology used for calculation.
 **We consider 2015 to be our base year as it is when the RENE methodology requirements were implemented.

We measure the advances we have made by comparing the consumption of the current and previous years, thus enabling us to establish our goals for the future, including:

- Decrease emissions by using renewable electrical energy at 80% of our establishments in Mexico.
- Ensuring the lowest possible emissions while driving efficiency in new Restaurant openings by leveraging experience from previous projects, in areas such as illumination, water heaters, and water pumps.
- Continue search for equipment or programs to help reduce emissions.



Water

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

Part of our environmental strategy is to use this resource efficiently, which is why the first step lies in having clear goals and indicators. In 2016, we estimated 46.3% of the water consumption at our base line. We are continuing to work to achieve 90% real measurements and only 10% estimations.



Waste

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

Fully aware of the impact that our Restaurants have in terms of waste, we added 68 Restaurants to the waste collection program, recycling 14,123 kg of cardboard. We also collected 950,319 liters of used vegetable oil, which is used to create biodiesel.

Our goal is to implement the separation of Tetra Brik, plastic, newspaper, magazines and paper, in addition to including newly-opened branches in the oil collection program.

Supplies

[G4-EN27]

It is exceedingly important for us to work with suppliers that offer environmentally-friendly products, which is why 49.8% of the napkins used at Domino's Pizza and Starbucks are recycled, while 50.2% are napkins made from completely biodegradable components.

We collected

950,319

liters of used vegetable oil.

49.8%

of napkins are recycled.

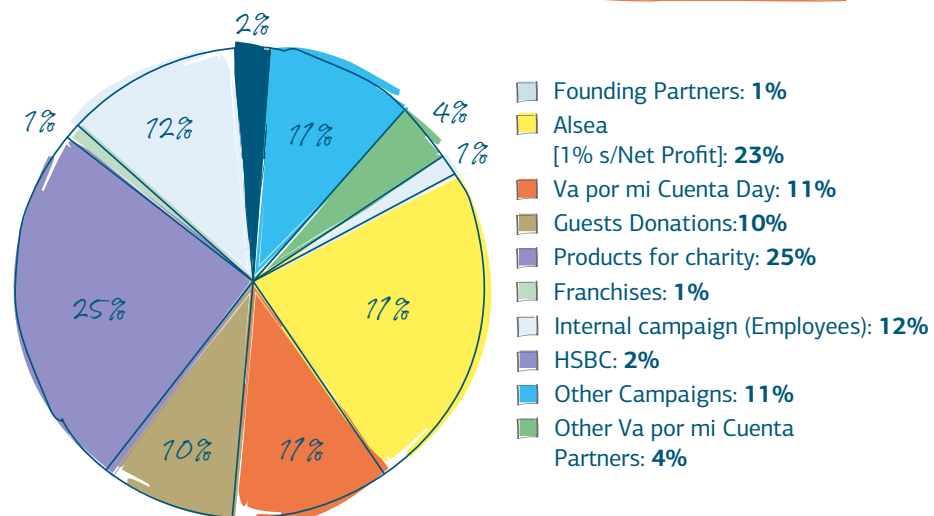


We promote food security in vulnerable communities, in addition to driving human development through education and employability initiatives.

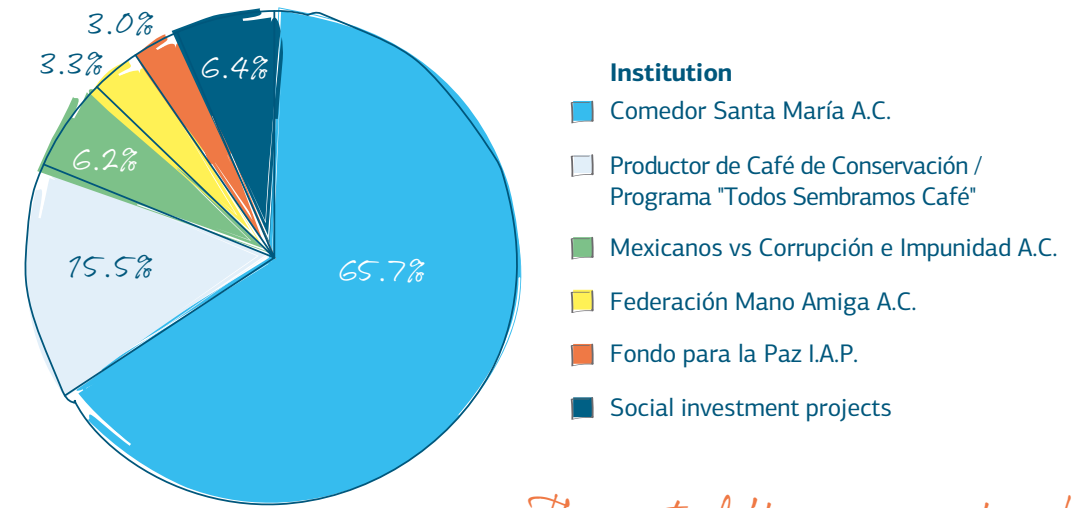


During the year, **Fundación Aalsea A.C. registered donations totaling MXN 44.4 million.**

Total Fundraising Fundación Aalsea A.C. (%)



Donations from Fundación Aalsea A.C. totaling MXN 32.3 million



The rest of the revenue has been used to create a reserve fund to guarantee the operations of the existing dining centers.



It's on me Movement

Through this program, we guarantee that children in situations of food poverty have access to healthy food through the construction and operation of dining centers called Our Diner, coordinated by our strategic partner, Comedor Santa María, A.C.

Given the nature of our Company, we have invested most of our resources in creating this program that supports children from the ages of 4 months to 16 years old, as well as pregnant and nursing mothers.



+20,000

This program brings together employees, consumers, and suppliers, who offer in-kind donations.

 employees are supporting the cause.

Va por mi Cuenta QUEST Campaign:

\$20,726,741 MXN

\$39,770,720 COP

For the first time, we exported the It's On Me Movement to **Colombia!**



In 2016, we opened a new **dining center** in **Ecatepec**, Estado de México, benefitting **500 children**.

% of employees who support the cause with financial contributions

Mexico: **46%** Colombia: **15%**

Meals Served

Mexico: **365,231** meals

2,231 children

1 new dining center

Colombia: **15,908** meals

Social Investment

Volunteering Hours
24,255 hours

In-Kind Donations
260 tons



On October 16, we rolled out Va por mi Cuenta Day, celebrating World Food Day by donating 100% of the net profit for the day to this campaign, the equivalent of 140,000 nutritious meals!

Challenges:

- To reaffirm our commitment to provide food safety in the most vulnerable communities.
- Consolidate the four pillars of our Sustainability strategy and guarantee positive impact in all our stakeholders.

www.movimientovapormicuenta.org



[G4-34, G4-35, G4-38, G4-39, G4-40, G4-41, G4-42, G4-43, G4-44, G4-45, G4-46, G4-51, G4-52, G4-53, G4-56, G4-57, G4-58]

Ethics and Corporate Governance

At Alsea, we are committed to each and every one of our ethical, accountability and transparency guidelines in every country in which we operate. Our Corporate Governance guarantees compliance with these guidelines.

Ethics

*United by a
commitment culture*

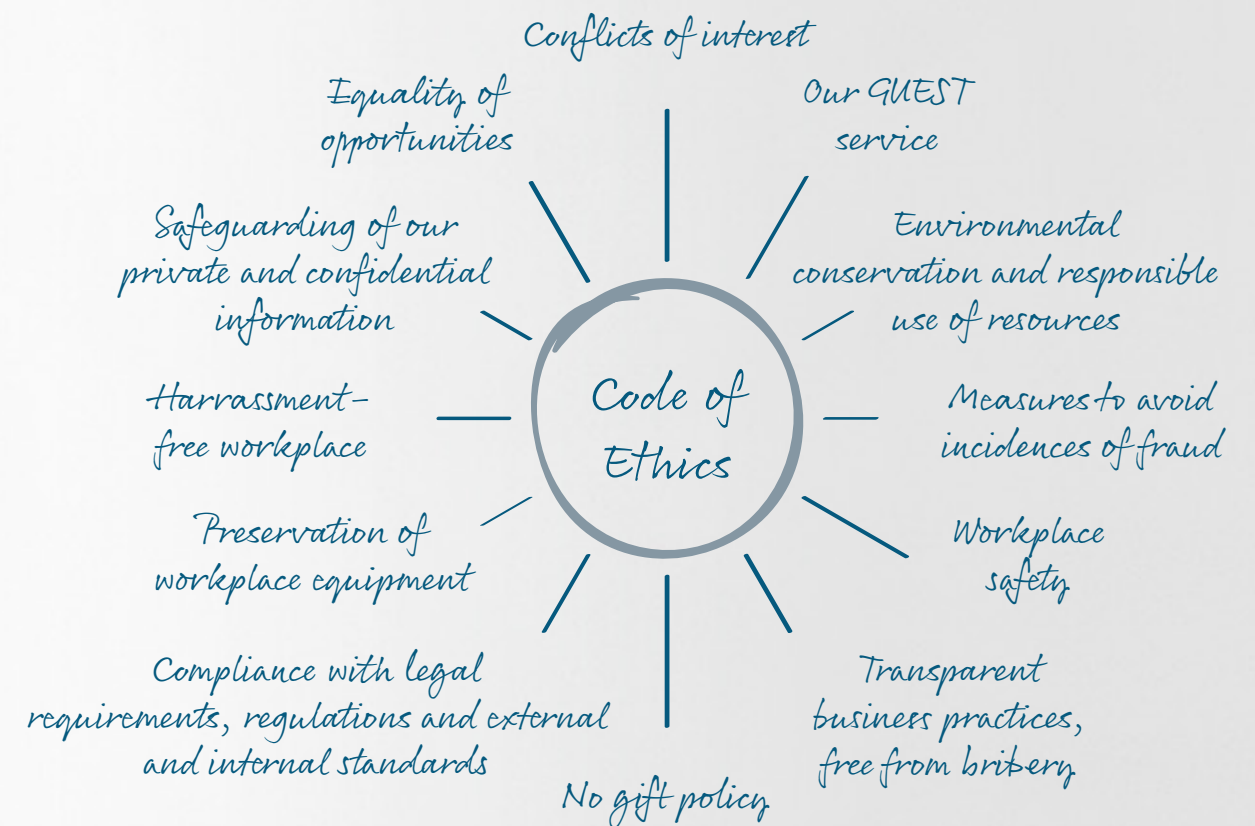
The Alsea Culture is fundamentally important in driving our performance and consolidating our goals, in addition to achieving our objectives and being successful. This is why we consistently embody the values that characterize who we are: Winning Attitude, Engaged Leadership, Surprising Service, Collaborative Spirit and Attention to Detail.

Every single day, we strive to deliver outstanding products and unrivalled experiences for our GUESTS, in addition to driving the development and training of our employees. This is how we achieve our purpose: "Ignite People's Spirit".

Our Code of Ethics is a guide for individual and collective behavior and is aligned with the Company's Strategic Plan. This Code is implemented around the world, in every country in which we operate, with our staff, our GUESTS, and our suppliers.

We also have an Ethics Committee, the goal of which is to monitor situations that could have a negative impact on our employees, Brands or the Company in general and which may violate our Code of Ethics.

The ethical guidelines of our Code of Ethics are:





"Línea Correcta" (Whistleblower program)

At Alsea, we are all part of the same family, and we look after one other just like a family does. In keeping with our culture of ethics, we offer Línea Correcta (the Right Line), a program that gives our employees a means of confidentially reporting any abuse they may have been a victim of or any acts of dishonesty that they have detected in their workplace.

In 2016, 837 grievances were filed, covering the 6 markets in which we operate, representing a 4.5% increase compared to 2015.

For further information about the Code of Ethics, please visit: <http://www.alsea.net/relacion-con-inversionistas/codigo-de-etica>

Anti-Corruption Culture

[G4-S04, G4-S05]

In order to consolidate our commitment to eradicating corruption, we have an Internal Control department that focuses on Risk Management. This area monitors activities in order to minimize corruption, in addition to coordinating our confidential whistleblower hotline.

We implemented an internal communication program to provide training to everyone at Alsea regarding the areas included in the Code of Conduct and anti-corruption measures. This was achieved through an online course, where employees also signed the updated Code of Ethics.

Our goal is to support the anti-corruption plan and expand it to encompass all of our Brands, plants, distribution centers and corporate offices.

Data Protection

We implemented security measures covering personal information in order to understand the potential risks regarding information confidentiality, integrity, and availability, in addition to complying with all applicable legislation regarding data privacy.

We have a number of procedures in place regarding how we protect our GUESTS' information, and thanks to these procedures, we have experienced no problems in this area. However, we will continue to strive to improve the monitoring of the personal data protection management system at our Brands, plants, distribution centers and corporate offices.

We protect the privacy of our GUESTS' information by appointing coordinators at each of our points of contact, in addition to offering on-going training and orientation through continuous improvement processes for our Brands.

Corporate Governance

We strictly comply with our Values and ethical principles in order to guarantee transparent Corporate Governance.

- 12 Board Members
- 6 Related Board Members
- 6 Independent Board Members
- Corporate Practices Committee
- Audit Committee

Organizational Structure



Board of Directors

Our Board of Directors is composed of 12 members, 6 of whom are Independent. When a meeting of the Board of Directors is convened, at least 25% of its members must be present.

The compensation system for Board Members is fixed and is based on their attendance at meetings of the Board and of the Committees of which they

are members, in addition to their participation in deliberations and the efficiency of the decisions taken.

There are two Board Committees, integrated by Independent Board Members, who can attend Board Meetings in their roles as members of these Committees. The Chairman of the Board of Directors is Alberto Torrado, who is a Related Regular Board Member.



Corporate Practices Committee

Members

Julio Gutiérrez
Chairman

Cosme Torrado
Member

León Kraig
Member

Carlos Piedrahita
Member

Elizabeth Garrido
Secretary

Functions and Responsibilities

- Suggest to the Board of Directors criteria for appointing or removing the CEO and high-level directors.
- Propose to the Board of Directors criteria for evaluating and compensating the CEO and high-level directors.
- Recommend to the Board of Directors criteria for determining severance payments to be made to the CEO and high-level directors.
- Recommend criteria for compensating members of the Board of Directors.
- Analyze proposals made by the CEO regarding employee compensation structure and criteria.
- Analyze and present to the Board of Directors for its approval the Company's social responsibility manifesto, the code of ethics and the information system for protecting informants and reporting illegal acts.
- Analyze and propose to the Board of Directors for its approval the formal succession process for the CEO and high-level directors, in addition to ensuring its compliance.
- Study and present to the Board of Directors the Company's strategic vision to ensure stability and continuity over time.
- Analyze the general guidelines presented by the senior management team to determine the Company's strategic plan and monitor its implementation.
- Evaluate the Company's investment and financing plan proposed by the senior management team and issue an opinion to the Board of Directors.
- Issue an opinion regarding the propositions for the annual budget presented by the CEO and monitor their application and the control system.
- Evaluate the mechanisms presented by the senior management team to identify, analyze, manage and control the risks to which the Company is subject, in addition to issuing an opinion to the Board of Directors.
- Evaluate the criteria presented by the CEO to disclose the risks to which the Company is subject, in addition to issuing an opinion to the Board of Directors.

Mexico City, February 20th, 2017

Annual Report from the Corporate Practices Committee to the Board of Directors of Alsea, S.A.B. de C.V.:

In compliance with that stipulated in Articles 42 and 43 of the Securities Market Law and on behalf of the Corporate Practices Committee, I wish to inform you of the activities that we undertook to the end of December 31st, 2016. In the course of our operations, we have focused on the recommendations set out by the Code of Best Corporate Practices.

In order to analyze all relevant results for the Company, the Committee organized sessions to ensure the adequate monitoring of the agreements reached, inviting those officers of the Company it deemed necessary to participate:

1. During this period, we received no requests in accordance with that stipulated in Article 28, Section III, Sub-Section F of the Securities Market Law, which is why no recommendations were issued.
2. The acquisition of 100% of the stock of Gastronomía Italiana en Colombia S.A.S., owner of the Archie's Brand in Colombia, was presented and approved.
3. The proposal to acquire stock from the franchisees of the Domino's Pizza Mexico system was presented and approved: Alimentos a tiempo S.A. de C.V., Pizzas Monza S.A. de C.V., Grupo Alimenticio Marzab S.A. de C.V.
4. The quarterly and cumulative results of the 2016 Marketability Plan were presented.
5. We were presented the Shareholder Cost at the end of each quarter of 2016, using the methodology authorized by the Board of Directors.
6. We were presented, on a quarterly basis, a summary of risk management operations through Exchange-Rate Forwards (Peso-Dollar) that were undertaken throughout the year. These operations were executed in accordance with the proper authorization, complying with the goal of covering operational risk based on exchange rates, in accordance with the authorized budget.
7. We were presented the 2017-2021 Strategic Plan, which we recommended be presented to the Board of Directors for its approval.
8. The 2017 Budget was presented, which we recommended be presented to the Board of Directors for its approval.

9. We were presented the Compensation Plan for relevant executives, which we recommended be presented to the Board of Directors for its approval.
10. We were presented and we reviewed the Succession and Talent Development plans for senior executives.
11. The results of the 2016 Performance Evaluations for relevant directors were presented.
12. The Corporate Human Resources Department presented the 2016 Compensation Strategy for directors. This Committee recommended the Board of Directors authorize this strategy.
13. At the request of the Board, we participated actively in the process to find and select the Company's new CEO.
14. 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.

In conclusion, I would like to mention that, as part of the activities we are involved in, including the preparation of this report, we have, at all times, listened to and taken into account the points of view of the relevant directors, without identifying any notable difference of opinion.

Corporate Practices Committee



Julio Gutiérrez Mercadillo
Chairman

Audit Committee

Members

Iván Moguel
Chairman

Julio Gutiérrez
Member

Raúl Méndez
Member

Elizabeth Garrido
Secretary

Functions and Responsibilities

- Recommend candidates to externally audit the Company, as well as hiring conditions and the scope of the professional services, in addition to ensuring their compliance, to the Board of Directors.
- Function as the communication channel between the Board of Directors and the external auditors, in addition to ensuring the latter's independence and objectivity.
- Review the working agenda, letters of observation and internal and external audit reports, in addition to informing the Board of Directors of the results.
- Meet regularly with the internal and external auditors, without any of the Company's directors being present, to listen to their comments and observations regarding the advances being made.
- Provide the Board of Directors with their opinion of the policies and criteria used to prepare financial information, in addition to the process for the publication of information, ensuring its reliability, quality, and transparency.
- Help define the general guidelines for internal control, internal audit and evaluate their effectiveness.
- Verify the risk control measures established to protect the Company.
- Coordinate the duties of the internal auditor and, if applicable, the commissioner.
- Contribute to establishing operational policies with relevant parties.
- Analyze and evaluate operations with relevant parties in order to issue recommendations to the Board of Directors.
- Hire third-party experts to issue opinions regarding operations with relevant parties or in any other area, ensuring the proper execution of their functions.
- Verify compliance with the Code of Ethics and measures to protect informants and report illegal acts.
- Support the Board of Directors in analyzing information recovery and contingency plans.
- Verify the implementation of the measures necessary to ensure the Company complies with all applicable legal obligations.

Annual Report from the Audit Committee to the Board of Directors of Alsea, S.A.B. de C.V.:

In compliance with that stipulated in Articles 42 and 43 of the Securities Market Law and the Regulations of the Audit Committee, I wish to inform you of the activities that we undertook to the end of December 31st, 2016. In the course of our operations, we have focused on the recommendations set out by the Code of Best Corporate Practices. Based on a working agenda created in compliance with the Regulations of the Committee, we met at least once a quarter to implement the activities described below:

1. RISK EVALUATION.

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

2. INTERNAL CONTROL.

We ensured that the Board of Directors, in accordance with its responsibilities in terms of internal control, established all necessary processes and policies. Furthermore, we monitored the comments and observations made by the Internal and External Auditors.

3. EXTERNAL AUDITS.

We recommended that the Board of Directors hired External Auditors from within the Group and its subsidiaries for the 2016 fiscal year. As such, we ensured their independence and compliance with all legal requirements. We analyzed, in conjunction with the Auditors, their approach and working agenda.

We maintained constant and direct communication with them in order to fully understand the advances they were making and the observations and comments they had regarding their review of the annual financial statements. We ensured opportune access to their conclusions and reports regarding the annual financial statements, and we monitored the implementation of the observations and recommendations they made during the auditing process.

We authorized the payment for the auditing services provided by the External Auditors, in addition to other authorized services, ensuring that we, in no way, interfered with their independence from the Company. Taking the points of view of the Board of Directors into consideration, we evaluated their services corresponding to the previous year, and we began the evaluation process corresponding to the 2016 fiscal year.

4. INTERNAL AUDITING.

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

In due time, we reviewed and authorized their annual working agenda. To create this agenda, the Internal Auditing area was involved in identifying risks, setting up control measures and verifying said measures.

We received periodic reports regarding the advances being made in the working agenda, in addition to any changes implemented and the reason for said changes.

We monitored the observations and suggestions presented and ensured their opportune implementation.

5. FINANCIAL INFORMATION, ACCOUNTING POLICIES AND THIRD PARTY REPORTS.

We reviewed, with the parties responsible, the process for preparing the Company's quarterly and annual financial statements, and we recommended their approval and authorization for publication to the Board of Directors. As part of this process, we took the opinions and observations of the External Auditors into account, and we ensured that the accounting and reporting policies and criteria used by the Board of Directors when preparing the financial statements were adequate and consistent with those used during the previous fiscal year. As such, the information presented by the Board of Directors reasonably reflects the financial situation, the operational results, cashflows and changes to the Company's financial situation to the end of December 31st, 2016.

We also reviewed the quarterly reports prepared by the Board of Directors and presented to shareholders and the general public, verifying that they were prepared in compliance with International Financial Reporting Standards (IFRS) and using the same accounting criteria used to prepare the annual report. We were able to verify that there is a comprehensive process that provides reasonable assurance of its content. In conclusion, we recommended that the Board of Directors authorize its publication.

6. COMPLIANCE, LEGAL ISSUES AND CONTINGENCIES.

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

We periodically reviewed the Company's tax, legal and labor contingencies, the effectiveness of the procedure to identify and monitor them, and their adequate disclosure and registration. Four tax contingencies were identified, three of which are issues that were detected, were reported and reviewed in 2014 and 2015, and monitored during this tax year, in addition to one new tax issue. Two legal issues were also identified:

- a. In 2014, the Ministry of Finance in Mexico City determined that Italcafé S.A. de C.V. was responsible for taxable income stemming from deposits made to its bank accounts as a result of the operation of a number of Restaurants pertaining to Grupo Amigos de San Ángel, S.A. de C.V.; despite the fact that said income was generated by the latter, meaning it should be responsible for all corresponding fiscal obligations. This case is currently being investigated by the District Attorney's Office in Mexico City.
- b. In 2014, the Tax Administration Service (SAT) initiated two procedures to repeal rulings issued in favor of Distribuidora e Importadora Alsea, S.A. de C.V. (DIA) and Café Sirena, S. de R.L. de C.V. (Café Sirena), authorizing the application of a 0% VAT rate on sandwiches (during the 2010, 2011, 2012 and 2013 tax years). In November 2016, the Federal Court of Tax and Administrative Justice declared the annulment of the ruling for Café Sirena. An appeal was launched to overturn this ruling. The DIA case is still being considered by the Special Court in this area.
- c. In 2015, the Tax Administration Service (SAT) began reviewing the 2013 tax year in order to verify the Group's Fiscal Consolidation. In October 2016, the Tax Administration Service (SAT) issued observations, for which the corresponding clarifications were made. To date, the Tax Administration Service (SAT) is currently reviewing said clarifications.
- d. In March 2016, the SAT visited the business addresses of Grupo Amigos de San Ángel, S.A. de C.V. (GASA) and Italcfe S.A. de C.V. (Italcfe) regarding the 2010 and 2011 tax years, respectively. These companies are currently providing the authorities with the information they have requested.
- e. In October 2015, the Federal Competition Commission (COFECE) fined Alsea MXN \$25,694,356.95, stating that Alsea's acquisition of 25% of Grupo Axo should have been notified prior to being executed.

Alsea appealed against this ruling, with the resolution for amparo proceedings being issued in December 2016. The judge's ruling was submitted to a review process, which is still on-going.
- f. In November 2015, COFECE imposed a fine of MXN \$20,461,393.65, stating non-compliance with the obligation to include a non-exclusivity clause in some lease contracts in shopping malls.

Alsea appealed against this ruling, with the resolution for amparo proceedings being issued in May 2016, which was emitted in favor of Alsea. In the amparo ruling, it was determined that COFECE's resolution was disproportionate and that it should issue a new resolution.

The judge's ruling was submitted to a review process, which is still on-going.

7. ADMINISTRATIVE ASPECTS.

We organized regular meetings with the Board of Directors, to keep them informed about the Company's progress and all relevant and unusual events. We also met with the Internal and External Auditors to discuss their progress, talk about any limitations they may have encountered and facilitate any private communication with the Committee.

Where we deemed necessary, we requested the support and opinion of independent experts. Furthermore, we were unaware of any possible significant acts of non-compliance with regard to the operational policies, internal control system and financial reporting policies.

We held executive meetings exclusively with members of the Committee, establishing during these meetings agreements and recommendations for the Board of Directors.

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

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

Sincerely,



Ivan Moguel Kuri
Chairman of the Audit Committee

Corporate Citizenship

[G4-16]

We work in conjunction with associations to drive growth within our sector and to create a more sustainable world. Some of these organizations include:

- American Chamber (AmCham).
- Asociación Nacional de Tiendas de Autoservicio y Departamentales (ANTAD).
- Cámara Nacional de la Industria de Restaurantes y Alimentos Condimentados (CANIRAC).
- Centro Mexicano para la Filantropía (CEMEFI).
- Consejo Mexicano de la Industria de Productos de Consumo (ConMéxico).
- Consejo Coordinador Empresarial (CCE).
- Consejo de la Comunicación (CC).
- Consejo Mexicano de Negocios (CMN).
- Confederación Patronal de la República Mexicana (COPARMEX).
- Dicares- AMR.
- Mexicanos Contra La Corrupción.
- Movimiento Por Una Vida Saludable.
- United Nations Global Compact.





About this Report

“The winning recipe” contains seven ingredients that allow us to offer our GUESTS the best possible experience.

Following up on the 2015 report, we have presented the most relevant results and advances in terms of the social, environmental, economic and ethical areas of our operations in Mexico, Spain, Argentina, Colombia, Chile, and Brazil.

Our 5th annual report was created using the core conformity option stipulated by the Global Reporting Initiative (GRI) for drafting G4 sustainability reports, covering the period from January 1, 2015, to December 31, 2016.

To determine the content of the report, we take into consideration the Company's sustainability framework, in addition to considering the most relevant areas for our stakeholders and their expectations. To guarantee the quality of the information, the following principles were taken into consideration:

Balance

We report our achievements, as well as our areas of opportunity and future challenges, throughout the year.

Comparability

Our stakeholders can see for themselves the advances we have made in different indicators and compare them to year-on-year results.

Accuracy

We describe in detail each program we implement to offer accurate information.



Punctuality

We make our annual report available to our stakeholders in order for them to consult it whenever they want.

Clarity

We present the results to our different stakeholders in a clear and understandable way.

Reliability

We prepare the information and report it using a specific methodology to ensure the veracity of the information and subject it to external auditing.

Materiality

[G4-18, G4-19, G4-20, G4-21, G4-27, G4-48]

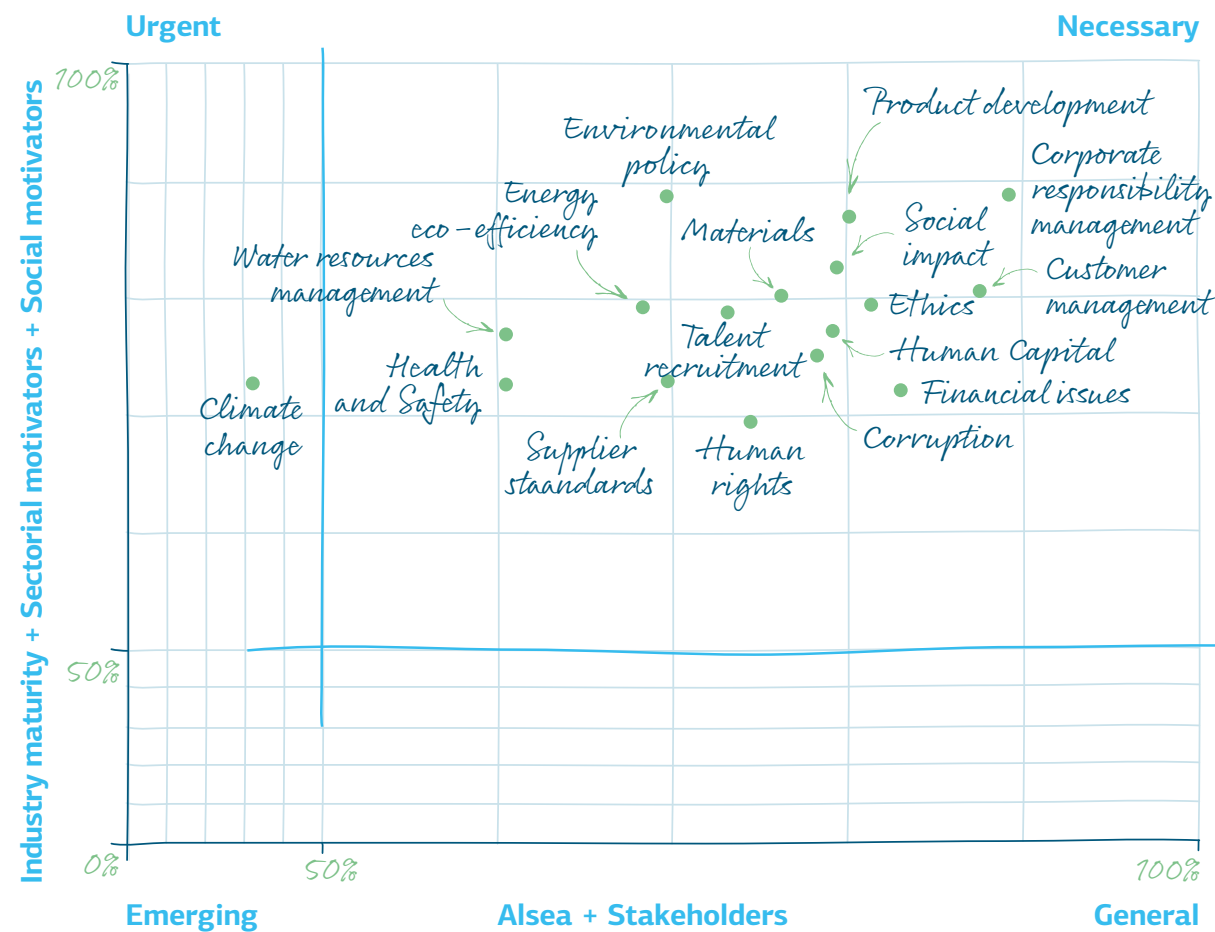
Committed to sustainability, in 2015 we commissioned a materiality assessment in which we identified the most important material aspects for our stakeholders and for the Company. In 2016, we updated this assessment by interviewing strategic employees from the Company and reviewing the results and advances of GRI indicators and material areas.

We **identify** material aspects that have an impact our different stakeholders.

We **prioritize** them based on the degree of maturity and the risk or opportunity they represent.

We **validate** the information with the corresponding areas.

We **review** all the data reported, identifying the areas of opportunity in which we need to continue working.



Material aspect	Coverage		Scope
	Internal	External	
Corporate Social Responsibility Management	✓	✓	Shareholders, guests, employees, suppliers, community, investors, government, NGOs, media, competitors
Economic performance	✓	✓	Shareholders, guests, employees, suppliers, investors, media and competitors
General	✓	✓	Investors, NGOs and media
Guest health and safety	✓	✓	Guests, employees, investors, authorities, media
Product and service labeling	✓	✓	Guests, authorities and competitors
Marketing communications	✓	✓	Guests, authorities and media
Guest privacy	✓	✓	Guests, employees and authorities
Regulatory compliance	✓	✓	Shareholders, guests, employees, investors, authorities and media
Ethics and integrity	✓	✓	Shareholders, guests, employees, suppliers, community, investors, authorities, NGOs, media and competitors
Anti-corruption	✓	✓	Shareholders, guests, employees, suppliers, community, investors, authorities and media
Public policy	✓	✓	Authorities
Anti-competitive practices	✓	✓	Guests, employees, investors, authorities, media and competitors
Training and education	✓		Employees
Investment	✓	✓	Employees, suppliers, community and NGOs
Jobs	✓	✓	Employees and communities
Local communities	✓	✓	Employees, community and NGOs
Indirect economic repercussions	✓	✓	Guests, employees, suppliers, community and NGOs
Non-discrimination	✓	✓	Shareholders, guests, employees, suppliers, community, investors, authorities, NGOs, media and competitors
Child labor	✓	✓	Employees, suppliers, community, authorities, NGOs, media
Forced labor	✓	✓	Employees, suppliers, community, authorities, NGOs, media
Procurement practices	✓	✓	Suppliers
Environmental evaluation of suppliers	✓	✓	Suppliers, investors and authorities
Labor practices evaluation of suppliers	✓	✓	Suppliers, investors and authorities
Human rights evaluation of suppliers	✓	✓	Suppliers, investors and authorities
Social repercussions analysis of suppliers	✓	✓	Suppliers, investors and authorities
Products and services	✓	✓	Investors, authorities and NGOs
Regulatory compliance	✓	✓	Shareholders, investors, authorities, NGOs and media
General	✓	✓	NGOs
Materials	✓	✓	Suppliers and NGOs
Health and Safety	✓	✓	Employees and authorities
Emissions	✓	✓	Community, authorities and NGOs
Energy	✓	✓	Community, authorities and NGOs
Water	✓	✓	Community, authorities and NGOs



Analysis of results

Consolidated results for full-year 2016

The following table shows a condensed Income Statement in millions of pesos (except EPS). The margin for each item represents net sales, as well as the percentage change for the year ended December 31, 2016, in comparison with the same period of 2015:

	2016	% Margin	2015	% Margin	% Change
Net Sales	\$37,702	100.0%	\$32,288	100.0%	16.8%
Gross Income	25,922	68.8%	22,139	68.6%	17.1%
EBITDA ⁽¹⁾	5,155	13.7%	4,302	13.3%	19.8%
Operating Income	2,767	7.3%	2,354	7.3%	17.6%
Net Income	\$1,126	3.0%	\$1,033	3.2%	9.1%
EPS ⁽²⁾	1.19	N.A.	1.17	N.A.	1.7%

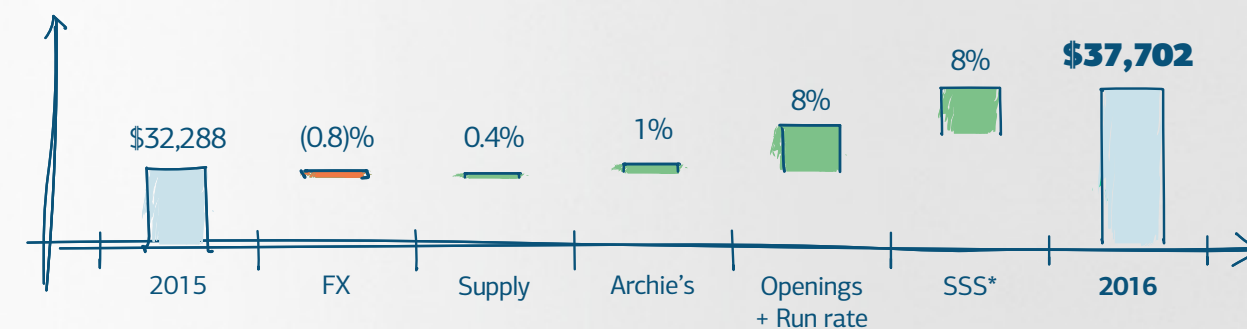
(1) EBITDA is defined as operating income before depreciation and amortization.

(2) EPS is earnings per share for the last 12 months.

Sales

Net sales increased 16.8% to 37,702 million pesos in 2016, compared to 32,288 million pesos during the prior year. This increase was mainly due to the growth of 8.9% in same-store sales, revenues from the distribution and production segment, and to the increase of 219 corporate units, for a total of 2,502 corporate stores at the end of December 2016, which is growth of 9.6% over the same period of the prior year. This increase in sales was partially offset by the negative effect of the devaluation of the Argentinean peso which was offset by the appreciation of the euro against the Mexican peso.

Net Sales 2016 vs. 2015



* The percentage of SSS contribution is the effect on the total revenue base.

The business portfolio in Mexico reported a growth of 5.9% in same-store sales at the end of 2016, and our Brands in South America presented growth of 23.5% in same-store sales, achieving a slightly below mid-single digit growth in transactions. Likewise, our Brands in Spain posted positive results in the year, with growth of 4.3% in same-store sales, in comparison with the same period of the prior year.

EBITDA

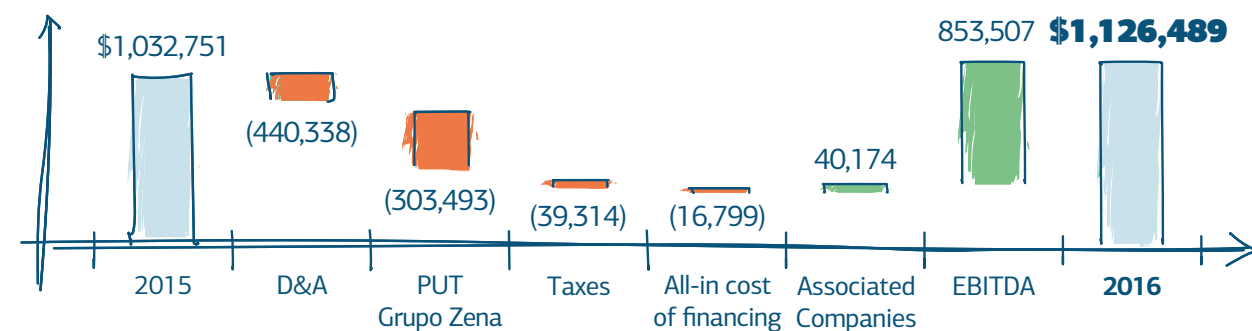
As a result of the 17.1% growth in gross income and the 16.4% increase in operating expenses (excluding depreciation and amortization), EBITDA rose 19.8% to 5,155 million pesos at the close of 2016, compared to 4,302 million pesos in the same period of the prior year. The 854 million-peso increase in EBITDA is mainly attributable to same-store sales growth, operating efficiencies, and the increase in the number of units and the positive contribution from incorporating Archie's in Colombia into our portfolio. That increase was partially offset by the impact on results due to depreciation of the Mexican peso against the dollar, as well as to the increase in expenses related to the strategy of improving the compensation of store personnel and to the increase in tariffs for energy services. EBITDA margin increased 40 basis points as a percentage of sales, rising from 13.3% in 2015, to 13.7% in 2016.

Net Income

Net income in the year increased 94 million pesos over the same period in the prior year, closing at 1,126 million pesos, compared with 1,033 million pesos in the prior year, mainly due to the 413 million-peso increase in operating income. This variation was partially offset by the increase of 320 million pesos in the all-in cost of financing, as a consequence of the negative variation caused by revaluation of the liability related to the call and put options of the remaining 28.24% of Grupo Zena, due to depreciation of the Mexican peso against the euro, as well as to the increase of 164 million pesos in interest paid – net and to a lesser extent to the increase of 39 million pesos in income tax.

Earnings per share ("EPS")⁽²⁾ for the 12 months ended December 31, 2016, increased to 1.19 pesos, compared with 1.17 pesos for the 12 months ended December 31, 2015.

Net Income 2016 vs. 2015



Results by segment for full year 2016

Mexico	Food and Beverages				Distribution and Production				Total			
	2016	2015	Var.	% Var.	2016	2015	Var.	% Var.	2016	2015	Var.	% Var.
Same-Store Sales	5.9%	4.4%	150 pbs	-	-	-	-	-	5.9%	4.4%	150 pbs	-
Number of Units	2,215	2,092	123	6%	-	-	-	-	2,215	2,092	123	6%
Sales	20,628	18,672	\$1,956	10%	7,258	6,375	\$883	14%	21,986	19,896	\$2,090	10%
Adjusted EBITDA*	4,545	4,091	\$453	11%	660	582	\$78	13%	5,205	4,674	\$531	11%
Adjusted EBITDA Margin*	22.0%	21.9%	10 pbs	-	9.1%	9.1%	-	-	23.7%	23.5%	20 pbs	-

* Adjusted EBITDA does not include administrative expenses, thus it represents the "Store EBITDA."

Sales at Alsea Mexico during the year ended December 31, 2016, increased 10% to 21,986 million pesos, compared to 19,896 million pesos in the same period of 2015. This favorable variation of 2,090 million pesos is mainly attributable to the incorporation of 104 corporate units of the different Brands over the last 12 months, the 5.9% growth in same-store sales, as well as the increase of 13.2% in sales to third parties in the distribution and production segment in comparison with 2015. This can be attributed to the growth in the number of units served over the last 12 months, supplying a total of 2,136 units at December 31, 2016, in comparison with 2,097 units for the same period in the previous year, which was a 1.9% increase.

Adjusted EBITDA increased 11.4% during the 12 months ended December 31, 2016, closing at 5,205 million pesos, compared with 4,674 million pesos reported in the same period of the prior year. This increase is attributable to the 5.9% growth in same-store sales, in addition to the margin created by the higher number of units in operation and to the business mix. The foregoing was partially offset by the impact from the devaluation of the peso against the dollar, to the increase in expenses related to the strategy of improving the compensation of store personnel, with the objective of reducing rotation, and to the increase in tariffs for energy services in Mexico.

Spain	2016	2015	Var.	% Var.
Same-Store Sales	4.3%	7.2%	(290) pbs	-
Number of Units	499	467	32	7%
Sales	\$7,591	\$5,674	\$1,917	34%
Adjusted EBITDA*	\$1,500	\$1,082	\$418	39%
Adjusted EBITDA Margin*	19.8%	19.1%	70 pbs	-

* Adjusted EBITDA does not include administrative expenses, thus it represents the "Store EBITDA."

Sales at Alsea Spain represented 20% of Alsea's consolidated sales and at the end of 2016 included the operations of Foster's Hollywood, Domino's Pizza, Burger King, LAVACA, Cañas y Tapas and Il Tempietto. Sales in this segment increased 33.8% to 7,591 million pesos, in comparison with 5,674 million pesos in 2015. This positive variation of 1,917 million pesos was mainly due to the 4.3% growth in same-store sales, driven principally by product innovation at Domino's Pizza and by the solid performance of Foster's Hollywood in Spain. At the end of the period there were a total of 344 corporate units and 155 sub-franchised units.

Adjusted EBITDA at Alsea Spain at the end of 2016 was 1,500 million pesos, in comparison with 1,082 million pesos in 2015. EBITDA margin at year end 2016 showed a positive variation of 70 basis points over the same period of the prior year. This increase is attributable to the growth in same-store sales, as well as to a drop in the price of some inputs in comparison with 2015.

South America	2016	2015	Var.	% Var.
Same-Store Sales	23.5%	25.5%	(200) pbs	-
Number of Units	481	395	86	22%
Sales	\$8,124	\$6,718	\$1,406	21%
Adjusted EBITDA*	\$1,228	\$1,021	\$207	20%
Adjusted EBITDA Margin*	15.1%	15.2%	(10) pbs	-

* Adjusted EBITDA does not include administrative expenses, thus it represents the "Store EBITDA."

Sales at Alsea South America represented 22% of Alsea's consolidated sales, and at year end 2016 included Burger King operations in Argentina, Chile and Colombia, Domino's Pizza Colombia, Starbucks Argentina, Chile and Colombia, Archie's in Colombia and P.F. Chang's in Chile, Argentina, Colombia and Brazil. At the end of the period there were a total of 460 corporate units and 21 sub-franchised units. Sales in this segment increased 20.9% to 8,124 million pesos, in comparison with 6,718 million pesos in 2015. This positive variation of 1,406 million pesos was mainly due to the increase of 84 corporate units and 2 sub-franchised units, which variation was partially offset by the devaluation of the Argentinean peso.

Adjusted EBITDA at Alsea South America at the end of full year 2016 increased by 20.2%, closing at 1,228 million pesos, in comparison with 1,021 million pesos in the same period in 2015. EBITDA margin at the close of the year ended December 31, 2016 decreased 10 basis points over the same period of the prior year. This reduction is partially attributable to the effect of the devaluation of the Argentinean currency, as well as to the increase in rates of energy, water and gas services in Argentina. This variation was partially offset by the economies of scale arising from the aforementioned increase in number of corporate units.

Non-operating results

All-In Cost of Financing

The all-in cost of financing of 2016 increased to 1,179 million pesos, compared with 859 million pesos in the prior year. This variation is mainly attributable to the negative effect from the revaluation of the liability related to the call and put options of the remaining 28.24% of Grupo Zena, due to depreciation of the Mexican peso against the euro during the year, coupled with the increase interest paid net, which was partially offset by the exchange rate gains reported in 2016.

Balance Sheet

During the twelve months ended December 31, 2016, Alsea made capital investments of 4,341 million pesos, excluding the acquisition of Archie's in Colombia and the 22 units of Domino's Pizza in Mexico, of which 2,793 million pesos, equal to 64% of total investments, were earmarked for store openings, equipment refurbishing and remodeling existing stores for the different Brands that the Company operates. The remaining 1,548 million pesos were mainly earmarked for the acquisition of new corporate offices, replacement of equipment (maintenance capex), improvement projects and the new Alsea's Operations Center ("COA"), as well as to software licenses, among other items.

Other Long-Term Liabilities

The Other Long-Term Liabilities account increased 396 million pesos, due to recognition of the liability related to the call and put options that were agreed with Britania Investments, S.A.R.L. ("Alia"), the local partner of Grupo Zena, for its entire stake in the company of 28.24%.

Bank Debt and Fixed-Rate Bonds

As of December 31, 2016, Alsea's total bank debt had increased by 2,607 million pesos, closing at 14,840 million pesos, in comparison with 12,233 million pesos on the same date of the previous year. The Company's consolidated net debt in comparison with the fourth quarter of 2015 increased 1,255 million pesos, closing on December 31, 2016 at 12,292 million pesos, in comparison with 11,038 million pesos.

As of December 31, 2016, 93% of the debt was long term, and on that same date 81% of the debt was denominated in Mexican pesos, 15% was in euros, and the remaining 4% was in Argentinean and Chilean pesos.

The following table shows the balance of total debt in millions of pesos at December 31, 2016, as well as the maturity dates for the subsequent years:

	Balance		Maturities							
	4T 16	2017 %	2018 %	2019 %	2020 %	2021 %	2022 %	2023 %	2024 %	2025 %
Total Debt	\$14,840	\$1,107 7	\$1,690 11	\$2,774 19	\$4,979 34	\$2,769 19	\$130 1	\$174 1	\$217 1	\$1,000 7

The following table shows the balance and structure of total debt in millions of pesos at December 31, 2016.

Institution	Tasa ref.	Spread	Maturities date	Dic 2016
Bank of America	6.11%	NA	18-sep-19	1,000,000.00
Bank of America	TIIE 28 D	1.19%	31-ago-21	1,884,000.00
Socotiabank	TIIE 28 D	1.18%	08-apr-19	589,429.17
Bank of Tokyo	TIIE 28 D	0.95%	24-jun-21	996,078.00
Scotiabank	TIIE 28 D	0.90%	30-sep-19	269,516.94
Scotiabank	TIIE 28 D	0.80%	07-jul-19	700,000.00
Scotiabank	TIIE 28 D	1.00%	17-mar-21	398,607.14
Banamex	TIIE 28 D	0.75%	02-jun-20	430,769.67
Santander	TIIE 28 D	1.00%	02-sep-21	796,266.76
Bancomext	TIIE 28 D	1.32%	14-nov-24	500,496.25
Bancomext	TIIE 28 D	1.35%	14-nov-24	150,551.66
Bancomext	TIIE 28 D	1.35%	14-nov-24	215,351.56
Bank Debt				7,931,067.15
Cebur Alsea '15	TIIE 28 D	1.10%	20-mar-20	2,988,845.00
Cebur Alsea '15	8.07%	NA	14-mar-25	1,000,000.00
Bond Debt				3,988,845.00
Argentina	25.0%	NA		562,217.85
Chile	4.02%	NA		83,696.00
Zena España	1.89%	NA	31-dic-20	2,274,063.00
Total Latin America and Spain				2,919,976.85
Total Debt				14,839,889

Shares Repurchase Program

At year ended, Alsea closed with a balance of 4,299,526 shares in the repurchase fund. During the 12 months ended December 31, 2016, the Company conducted purchase and sale operations amounting approximately to 302 million pesos.

Financial Ratios

At December 31, 2016, the financial restrictions established in the Company's credit contracts were as follows: The ratio of: (i) Total Debt to EBITDA (last 12 months) was 2.9x; (ii) Net Debt to EBITDA (last 12 months) was 2.4x; and (iii) EBITDA (last 12 months) to interest paid over the last 12 months was 5.8x.

The Return on Net Invested Capital ("ROIC")⁽²⁾ increased from 9.3% to 10.9% during the 12 months ended December 31, 2016. The Return on Equity ("ROE")⁽³⁾ for the 12 months ended December 31, 2016 was 11.7%, in comparison with 10.4% in the same period of the prior year.

Key Information

	4Q 16	4Q 15	Variation
Financial Indicators			
EBITDA ⁽¹⁾ / Interest Paid	5.8 x	6.1 x	N.A.
Total Debt / EBITDA ⁽¹⁾	2.9 x	2.8 x	N.A.
Net Debt / EBITDA ⁽¹⁾	2.4 x	2.6 x	N.A.
ROIC ⁽²⁾	10.9%	9.3%	160 bps
ROE ⁽³⁾	11.7%	10.4%	130 bps
Adjusted ROE ⁽⁴⁾	16.0%	11.6%	439 bps
Stock Market Indicators			
Book Value per Share	\$10.68	\$10.68	-
EPS (12 months) ⁽⁵⁾	1.19	1.17	1.7%
Shares in circulation at the close of the period (millions)	834.3	837.5	(0.4)%
Price per share at close	\$59.33	\$59.85	(0.9)%

(1) EBITDA pro forma for the last 12 months.

(2) ROIC is defined as operating income after taxes (last 12 months) by net operating investment (total assets – cash and short-term investments – no-cost liabilities).

(Total assets – cash and temporary investments – non-interest-bearing liabilities).

(3) ROE is defined as net earnings (last 12 months) over shareholders' equity.

(4) Adjusted ROE excludes the effect of the liability related to the call and put options of the remaining 28.24% of Grupo Zena.

(5) EPS is earnings per share for the last 12 months.

Hedge Profile

The Finance Direction, joint with the Treasury Management, shall manage risks seeking to: mitigate present and future risks; not deviate resources from the operation and the expansion plan and hold the certainty of the Company's future flows, along with a strategy regarding the debt's cost. All instruments will only be used for hedging purposes.

During 2015 hedge derivatives in foreign exchange matured for \$204.5 million dollars, at an average exchange rate of 18.21 pesos per dollar. This hedging resulted in an exchange rate profit of \$114.9 million Mexican pesos. At December 31, 2016 Alsea holds hedges to purchase US dollars in the next 12 months for an approximate amount of \$98 million US dollars, at an average exchange rate of 19.21 pesos per dollar. The foregoing is estimated at an average exchange rate of 20.75 pesos per dollar.



Audited Financial Statements

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

Consolidated Financial Statements for the Years Ended December 31, 2016, 2015 and 2014, and Independent Auditors' Report Dated March 28, 2017

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

Independent Auditors' Report and Consolidated Financial Statements for 2016, 2015 and 2014

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

Opinion

We have audited the accompanying consolidated financial statements of Alsea, S.A.B. de C.V. and Subsidiaries (the Entity), which comprise the consolidated statements of financial position as of December 31, 2016, 2015 and 2014, and the consolidated statements of income, consolidated statements of other comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Alsea, S.A.B. de C. V. and subsidiaries as of December 31, 2016, 2015 and 2014, and their consolidated financial performance and their consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of Consolidated Financial Statements section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for professional Accountants (IESBA Code) and with the Ethics Code issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those which, according to our professional judgment, have the greatest significance for our audit of the consolidated financial statements of the current period. They have been handled within the context of our audit of the consolidated financial statements taken as a whole and the formation of our opinion in this regard. Accordingly, we do not express a separate opinion on these matters. We have decided that the issues described below constitute the key audit matters that must be included in our report.

Impairment of long-lived assets

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

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

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

As discussed in Note 3j to the consolidated financial statements, the Entity has not identified impairment effects which, at December 31, 2016, might have required adjustments to the values of long-lived assets.

Goodwill and other intangible assets

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

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

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

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

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

Noncontrolling interest purchase option

As explained in Note 1i, in 2014 the Entity acquired Grupo Zena. As a result of this transaction, it is entitled to acquire the noncontrolling interest held by other investors four years after the acquisition date. In conformity with IAS 32, *Financial instruments*, the current value of the estimated debt that will be settled when the purchase option is exercised according to contractual clauses must be recorded. The initial recognition of this debt must be applied to a supplementary capital account; each year, its revaluation affects the result of the year.

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

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

Information other than the consolidated financial statements and auditors' report

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

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

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

Other matter

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

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

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provided the Entity's corporate governance officers with a declaration to the effect that we have fulfilled applicable ethical requirements regarding our independence and have reported all the relations and other issues that could be reasonably be expected to affect our independence and, when applicable, the respective safeguards.

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

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



C.P.C. Francisco Torres Uruchurtu

Mexico City, Mexico
March 28, 2017

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

Consolidated Statements of Financial Position

At December 31, 2016, 2015 and 2014

(Figures in thousands of Mexican pesos)

Assets	Notes	2016	2015	2014	Liabilities and stockholders' equity	Notes	2016	2015	2014
Current assets					Current liabilities				
Cash and cash equivalents	6	\$ 2,547,842	\$ 1,195,814	\$ 1,112,850	Current maturities of long-term debt	17	\$ 1,107,238	\$ 734,824	\$ 1,377,157
Customers, net	7	708,380	639,943	673,749	Current maturities of financial lease liabilities	12	6,799	7,190	7,878
Value-added tax and other recoverable taxes		363,120	205,453	218,301	Suppliers		3,901,972	3,013,091	2,694,015
Other accounts receivable		245,258	264,910	221,794	Accounts payable and accrued liabilities		909,156	635,802	601,854
Inventories, net	8	1,575,363	1,377,981	1,055,174	Accrued expenses and employee benefits		2,531,885	1,713,496	1,292,606
Advance payments	9	402,190	322,386	503,219	Income taxes		289,484	139,118	232,780
Total current assets		5,842,153	4,006,487	3,785,087	Taxes arising from tax consolidation	20	22,946	31,893	38,983
Long-term assets					Total current liabilities		8,769,480	6,275,414	6,245,273
Guarantee deposits		362,618	384,328	291,139	Long-term liabilities				
Investment in shares of associated companies	14	1,035,975	922,962	829,824	Long-term debt, not including current maturities	17	9,743,806	5,018,722	7,370,666
Store equipment, leasehold improvements and property, net	10	13,673,445	11,137,776	10,021,037	Non-current financial lease liabilities	12	300,835	307,140	314,342
Intangible assets, net	11 y 16	15,215,336	14,691,004	14,623,621	Obligation under put option of non-controlling interest	19	3,185,096	2,777,328	2,673,053
					Debt instruments	18	3,988,845	6,479,795	2,491,356
					Other liabilities		67,524	73,272	69,035
					Taxes arising from tax consolidation	20	18,846	39,755	70,093
					Deferred income taxes	20	1,887,473	1,925,337	1,944,053
					Employee retirement benefits	21	109,166	108,586	102,545
					Total long-term liabilities		19,301,591	16,729,935	15,035,143
					Total liabilities		28,071,071	23,005,349	21,280,416
					Stockholders' equity				
						23			
					Capital stock		476,599	478,203	478,271
					Premium on share issue		8,625,720	8,613,587	8,613,587
					Retained earnings		3,123,193	2,748,469	2,187,327
					Reserve for repurchase of shares		320,231	517,629	531,406
					Reserve for obligation under put option of non-controlling interest	19 y 23	(2,673,053)	(2,673,053)	(2,673,053)
					Other comprehensive income items		(758,686)	(736,604)	(379,578)
					Stockholders' equity attributable to the controlling interest		9,114,004	8,948,231	8,757,960
					Non-controlling interest	24	1,013,448	899,920	833,213
					Total stockholders' equity		10,127,452	9,848,151	9,591,173
Deferred income taxes	20	2,068,996	1,710,943	1,320,881	Total liabilities and stockholders' equity				
Total long-term assets		32,356,370	28,847,013	27,086,502			\$ 38,198,523	\$ 32,853,500	\$ 30,871,589
Total assets		\$ 38,198,523	\$ 32,853,500	\$ 30,871,589					

See accompanying notes to the consolidated financial statements.

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

Consolidated Statements of Income

For the years ended December 31, 2016, 2015 and 2014

(Figures in thousands of Mexican pesos)

	Note	2016	2015	2014
Continuing operations				
Net sales	26	\$ 37,701,867	\$ 32,288,376	\$ 22,787,368
Cost of sales	27	11,779,630	10,149,276	7,272,274
Leases		3,274,251	2,851,083	1,805,853
Depreciation and amortization		2,388,235	1,947,897	1,333,320
Other operating costs and expenses	28	17,382,096	14,930,621	10,705,673
Other expenses, net	29	110,651	55,666	201,731
Interest income		(37,060)	(30,512)	(33,257)
Interest expenses		881,643	710,901	527,281
Changes in the fair value of financial instruments	19	407,768	104,275	-
Exchange (gain) loss, net		(73,193)	74,202	(562)
		<u>1,587,846</u>	<u>1,494,967</u>	<u>975,055</u>
Equity in results of associated companies	14	<u>67,877</u>	<u>27,703</u>	<u>32,253</u>
		<u>1,655,723</u>	<u>1,522,670</u>	<u>1,007,308</u>
Income before income taxes				
Income tax expense	20	<u>529,233</u>	<u>489,919</u>	<u>364,593</u>
Consolidated net income from continuing operations		<u>1,126,490</u>	<u>1,032,751</u>	<u>642,715</u>
Discontinued operations:				
Loss from discontinued operations - net of income taxes	29	<u>-</u>	<u>-</u>	<u>(18,621)</u>
Consolidated net income		<u>\$ 1,126,490</u>	<u>\$ 1,032,751</u>	<u>\$ 624,094</u>
Net income for the year attributable to:				
Controlling interest		<u>\$ 996,471</u>	<u>\$ 981,215</u>	<u>\$ 666,666</u>
Non-controlling interest		<u>\$ 130,019</u>	<u>\$ 51,536</u>	<u>\$ (42,572)</u>
Earnings per share:				
Basic and diluted net earnings per share from continuing and discontinued operations (cents per share)	25	<u>\$ 1.19</u>	<u>\$ 1.17</u>	<u>\$ 0.85</u>
Basic and diluted net earnings per share from continuing operations (cents per share)	25	<u>\$ 1.19</u>	<u>\$ 1.17</u>	<u>\$ 0.87</u>

See accompanying notes to the consolidated financial statements.

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

Consolidated Statements of Other Comprehensive Income

For the years ended December 31, 2016, 2015 and 2014

(Figures in thousands of Mexican pesos)

	2016	2015	2014
Consolidated net income	\$ 1,126,490	\$ 1,032,751	\$ 624,094
Items that may be reclassified subsequently to income:			
Valuation of financial instruments, net of income taxes	(94,821)	(80,460)	(7,242)
Exchange difference on translating foreign operations, net of income taxes	<u>72,739</u>	<u>(276,566)</u>	<u>(121,299)</u>
	<u>(22,082)</u>	<u>(357,026)</u>	<u>(128,541)</u>
Total comprehensive income, net of income taxes	<u>\$ 1,104,408</u>	<u>\$ 675,725</u>	<u>\$ 495,553</u>
Comprehensive income (loss) for the year attributable to:			
Controlling interest	<u>\$ 974,389</u>	<u>\$ 624,189</u>	<u>\$ 538,125</u>
Non-controlling interest	<u>\$ 130,019</u>	<u>\$ 51,536</u>	<u>\$ (42,572)</u>

See accompanying notes to the consolidated financial statements.

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

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2016, 2015 and 2014

(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	Reserve for obligation under put option of non-controlling interest	Legal reserve	Retained earnings	Valuation of financial instruments	Effect of translation of foreign operations	Total controlling interest	Non-controlling interest	Total stockholders' equity
Balances at January 1, 2014	\$ 403,339	\$ 2,037,390	\$ -	\$ 569,271	-	\$ 100,736	\$ 1,411,728	-	\$ (251,037)	\$ 4,271,427	\$ 239,504	\$ 4,510,931
Repurchase of shares (Note 23a)	-	-	(498)	(39,566)	-	-	-	-	-	(40,064)	-	(40,064)
Sales of shares (Note 23a)	-	-	20	1,701	-	-	-	-	-	1,721	-	1,721
Placement of shares, net of issuance expenses (Note 1c and 23a)	75,410	6,576,197	-	-	-	-	-	-	-	6,651,607	-	6,651,607
Business acquisitions and obligation under put option of non-controlling (Note 19 and 24a)	-	-	-	-	(2,673,053)	-	-	-	-	(2,673,053)	736,456	(1,936,597)
Valuation adjustment (Note 2a)	-	-	-	-	-	-	-	-	-	-	(101,520)	(101,520)
Other movements (Note 24a)	-	-	-	-	-	-	8,197	-	-	8,197	1,345	9,542
Comprehensive income	-	-	-	-	-	-	666,666	(7,242)	(121,299)	538,125	(42,572)	495,553
Balances at December 31, 2014	478,749	8,613,587	(478)	531,406	(2,673,053)	100,736	2,086,591	(7,242)	(372,336)	8,757,960	833,213	9,591,173
Repurchase of shares (Note 23a)	-	-	(965)	(93,422)	-	-	-	-	-	(94,387)	-	(94,387)
Sales of shares (Note 23a)	-	-	897	79,645	-	-	-	-	-	80,542	-	80,542
Dividend paid	-	-	-	-	-	-	(419,173)	-	-	(419,173)	-	(419,173)
Business acquisitions and obligation under put option of non-controlling (Note 24a)	-	-	-	-	-	-	(900)	-	-	(900)	5,015	4,115
Other movements	-	-	-	-	-	-	-	-	-	-	10,156	10,156
Comprehensive income	-	-	-	-	-	-	981,215	(80,460)	(276,566)	624,189	51,536	675,725
Balances at December 31, 2015	478,749	8,613,587	(546)	517,629	(2,673,053)	100,736	2,647,733	(87,702)	(648,902)	8,948,231	899,920	9,848,151
Repurchase of shares (Note 23a)	-	-	(1,995)	(248,503)	-	-	-	-	-	(250,498)	-	(250,498)
Sales of shares (Note 23a)	-	12,133	391	51,105	-	-	-	-	-	63,629	-	63,629
Dividend paid (Note 23a)	-	-	-	-	-	-	(644,771)	-	-	(644,771)	(45,178)	(689,949)
Effect of acquisition of business in associated entity	-	-	-	-	-	-	57,888	-	-	57,888	-	57,888
Business acquisitions and obligation under put option of non-controlling	-	-	-	-	-	-	(34,761)	-	-	(34,761)	-	(34,761)
Other movements	-	-	-	-	-	-	(103)	-	-	(103)	28,687	28,584
Comprehensive income	-	-	-	-	-	-	996,471	(94,821)	72,739	974,389	130,019	1,104,408
Balances at December 31, 2016	\$ 478,749	\$ 8,625,720	\$ (2,150)	\$ 320,231	\$ (2,673,053)	\$ 100,736	\$ 3,022,457	\$ (182,523)	\$ (576,163)	\$ 9,114,004	\$ 1,013,448	\$ 10,127,452

See accompanying notes to the consolidated financial statements.

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2016, 2015 and 2014

(Figures in thousands of Mexican pesos)

	Note	2016	2015	2014
Operating activities:				
Consolidated net income		\$ 1,126,490	\$ 1,032,751	\$ 642,715
Adjustment for:				
Income taxes		529,233	489,919	364,593
Equity in results of associated companies		(67,877)	(27,703)	(32,253)
Interest expense		881,643	710,901	527,281
Interest income		(37,060)	(30,512)	(33,257)
Disposal of store equipment and property		14,490	162,734	60,418
Discontinued operations		-	-	3,219
Changes in the fair value of financial instruments		407,768	104,275	-
Depreciation and amortization	10 y 11	2,388,235	1,947,897	1,333,320
		5,242,922	4,390,262	2,866,036
Changes in working capital				
Customers		(16,072)	18,847	(188,430)
Other accounts receivable		24,027	(48,207)	(23,803)
Inventories		(145,375)	(352,815)	(159,470)
Advance payments		(38,902)	3,932	(270,678)
Suppliers		696,528	344,836	259,932
Accrued expenses and employee benefits		984,024	285,807	512,160
Income taxes paid		(967,746)	(818,934)	(384,787)
Other liabilities		(55,514)	(93,336)	(240,515)
Labor obligations		580	6,041	(5,240)
Discontinued operations		-	-	(21,840)
Net cash flows provided by operating activities		5,724,472	3,736,433	2,343,365
Cash flows from investing activities:				
Interest collected	10	37,060	30,512	33,257
Store equipment, leasehold improvements and property	11	(4,048,244)	(2,984,818)	(1,996,173)
Intangible assets		(550,998)	(411,472)	(393,984)
Acquisitions of business, net of cash acquired	1 y 16	(293,027)	-	(9,816,311)
Net cash flows used in investing activities		(4,855,209)	(3,365,778)	(12,173,211)

	Note	2016	2015	2014
Cash flows from financing activities:				
Bank loans	22	5,820,156	4,272,000	12,230,892
Repayments of loans		(1,036,032)	(7,389,420)	(8,042,822)
Repayments of financial leases		(6,696)	(7,890)	(9,679)
Issuance of debt instruments	1 and 18	-	4,000,000	-
Payments for debt instruments		(2,500,000)	-	-
Increase in capital stock from placement of shares, net of premium and issuance expenses	23	-	-	6,651,607
Interest paid		(881,643)	(710,901)	(527,281)
Dividends paid		(689,949)	(419,173)	-
Payments for financial leasing		(122,071)	-	-
Acquisition of non-controlling interest		-	(27,265)	-
Other capital movements of associated companies		23,127	-	-
Repurchase of shares		(250,498)	(94,387)	(40,064)
Sales of shares		63,629	80,542	1,721
Net cash flows provided by (used in) financing activities		420,023	(296,494)	10,264,374
Net increase in cash and cash equivalents		1,289,286	74,161	434,528
Exchange effects on value of cash		62,742	8,803	15,052
Cash and cash equivalents:				
At the beginning of the year		1,195,814	1,112,850	663,270
At end of year		\$2,547,842	\$1,195,814	\$1,112,850

See accompanying notes to the consolidated financial statements.

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016, 2015 and 2014

(Figures in thousands of Mexican pesos)

1. Activity, main operations and significant events

Operations

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

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

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

Alsa is mainly engaged in operating fast food Restaurants "QSR" cafes and casual dining "Casual Dining". The Brands operated in Mexico are Domino's Pizza, Starbucks, Burger King, Chili's Grill & Bar, California Pizza Kitchen, P.F. Chang's, Italianni's, The Cheese Cake Factory, VIPS and El Porton. 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 Alsa, S.A. de C.V. (DIA), real property and development services, as well as administrative services (financial, human resources and technology). The Entity operates the Burger King, P.F. Chang's and Starbucks Brands in Chile and Argentina. In Colombia, Alsa operates the Domino's Pizza, Burger King, Starbucks, P.F. Chang's Brands and from 2016 it operates the Archie's Brand. Starting in 2014, the P.F. Chang's Brand operates in Brazil. And starting October 2014, Alsa operates in Spain the Brands Foster's Hollywood, Cañas y Tapas, Il Tempietto, La Vaca Argentina, Burger King and Domino's Pizza.

Significant events

- a. **Refinancing and pre-payment of debt certificates** - On September 8, 2016, Alsa successfully concluded the refinancing of debt with costs in the amount of \$2,500,000 and \$10,383 of accrued interest. As part of this transaction Alsa obtained two bilateral loans with Bank of America, N.A. and Grupo Financiero Santander Mexico within five years for a total of \$2,684,000, resources to pay in advance the \$2,500,000 of the debt instruments issued in June 2013 maturing in June 2018, and the remaining \$173,617 was used to capital investment purposes as part of the store expansion program of the different Brands of the Entity's portfolio.
- b. **Acquisition of Sub-franchisee assets of Domino's Pizza Mexico** - On September 2, 2016, Alsa concluded the acquisition of 100% of the assets of 22 Domino's Pizza stores from a sub-franchisee who prior to this acquisition had exclusive rights to develop and operate the Brand in certain areas of the State of Mexico, within the metropolitan area of Mexico City and the State of Hidalgo. This purchase consisted of the acquisition of all the assets of the 22 units, as well as the rights and obligations that derive from the sub-franchise agreements for the operation of said establishments.
- c. **Signing of Chili's Development Contract in Chile** - On June 7, 2016, Alsa signed an exclusive development agreement to operate and develop Chili's Restaurants in Chile. With this new development contract, Alsa agrees to have a minimum of 15 Chili's Restaurants operating in the Andean country over a period of 10 years.
- d. **Acquisition of Archie's, S.A.S. In Colombia** - On March 3, 2016, Alsa was the winner of the asset divestment process of the Italian Restaurant chain Archie's Colombia, S.A.S. (Archie's), Archie's is a 100% Colombian concept that has grown and developed its format to the measure of the national market; the business was founded in 1993 and is the largest Restaurant chain of Italian food in Colombia and one of the main chains of that country. Archie's currently operates 41 Restaurants in 7 of the main cities of Colombia, and has presence in the main shopping centers of the country.
- e. **Placement of debt instruments** - In March 2015, Alsa concluded the placement of debt instruments worth \$3,000,000, maturing in March 2020, and bear interest at the 28-day TIE rate (Mexican Interbank Offering rate) plus 1.10 percentage points; and other the placement of debt instrument worth \$1,000,000, maturing in March 2025, bearing interest at a fixed rate of 8.07%; this placement received a rating of "A+" for local currency debt by Fitch Rating & HR Ratings.
- f. **Acquisition of the non-controlling interest of Grupo Amigos de San Angel** - In July 2015, Alsa completed the acquisition of the remaining 10.23% of Grupo Amigos de San Angel S.A. de C.V. ("GASA"); the company owns 29 Italianni's units. Since February 2012, Alsa maintained 89.77% of the shares of GASA. (see effects in Note 24b).
- g. **Primary offering to subscribe and pay shares for the amount of \$5,999,999** - In June 2014, Alsa made a share placement of \$5,999,999 on the Mexican and international markets (without considering an overallotment option for the total amount of \$6,899,999). In Mexico, the offering amount is up to \$2,881,043, while the international offering amount is up to \$3,118,956. The global offering was made for 131,147,540 shares (without considering the overallotment option of 150,819,671 shares); a total of 62,973,627 shares were placed in Mexico, together with 68,173,913 shares on the international market. The placement price was \$45.75 per share. Issuance expenses of \$248,392 were incurred to make the public offering.

h. 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. On April 30, 2014, the regulatory authorities approved the transaction, becoming effective as of such date; Alsea consolidates the financial information of VIPS since such date. (see effects in note 15). VIPS' operations include a total of 360 Restaurants, of which 262 are of the "Vips" Brand, 90 are of the "El Portón" Brand, 6 are of the "Ragazzi" Brand and two are of the "La Finca" Brand. Those operations also include: I) the rights to intellectual property over the four Brands, menus, development of the product, operating processes and other items; II) the acquisition of 18 real property assets; III) the buildings which total 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 in 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.

i. Acquisition of Grupo Zena - In October 2014, Alsea reached an agreement with the Food Service Group, S.A. and Tuera 16, S.A., S.C.R., incorporated in Luxemburgo and Spain, respectively, to acquire 71.76% of the capital stock of the entity Food Service Project, S.L. ("FSP"), incorporated in Spain and which is denominated, together with its subsidiaries "Grupo Zena", and which is engaged in the operation of Restaurants of the Brands "Foster's Hollywood", "Cañas y Tapas", "Il Tempietto", "La Vaca Argentina", "Burger King" and "Domino's Pizza", for a total of 107,445 Euros (equivalent to \$1,934,023) ("Acquisition Price"). Alsea consolidates the financial information of Grupo Zena beginning in October 2014, date in which the transaction was formalized. (see effects in Note 15).

Grupo Zena's operations include a total of 427 Restaurant, of which 195 are of the "Foster's Hollywood" Brand, 127 are of the "Domino's Pizza" Brand, 60 are of the "Burger King" Brand, 13 are of the "La Vaca Argentina" Brand, 21 are of the "Cañas y Tapas" Brand and 11 are of the "Il Tempietto" Brand. Also, Grupo Zena has given two subfranchises of the Domino's Brand, 122 subfranchises of the Foster's Hollywood Brand, 13 subfranchises of the Cañas y Tapas Brand, and 6 subfranchises of the Il Tempietto Brand to another parties.

2. Application of new and revised International Financial Reporting Standards

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

In the current year, the Entity has applied a number of amendments to IFRSs and new Interpretation issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2016.

Amendments to IAS 1, Disclosure Initiative

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice.

The application of these amendments to IAS 1 did not have impacts on the Entity's consolidated financial statements.

Amendments to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3, *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12, *Income Taxes* regarding the recognition of deferred taxes at the time of acquisition and IAS 36, *Impairment of Assets* regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments are applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after January 1, 2016.

The application of these amendments to IFRS 11 did not have an impact on the Entity's consolidated financial statements.

Amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) When the intangible asset is expressed as a measure of revenue; or
- b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, the Entity uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively. The management of the Entity believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the application of these amendments to IAS 16 and IAS 38 did not have an impact on the Entity's consolidated financial statements.

Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The amendments should be applied prospectively to transactions occurring in annual periods beginning on or after January 1, 2016.

The application of these amendments to IFRS 10 and IAS 28 may had no impact on the Entity's consolidated financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply.

The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19, *Employee Benefit*, clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments had no material effect on the Entity's consolidated financial statements.

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

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

IFRS 9	Financial Instruments ²
IFRS 15	Revenue from Contracts with Customers ²
IFRS 16	Leases ³
Amendments to IAS 12	Income taxes ¹
Amendments to IAS 7	Statements of Cash Flows ¹
Amendments to IFRS 2	Classification and measurement of share-based payments ¹

¹ Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

² Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

³ Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

The directors of the Entity do not anticipate that the application of these amendments will have a material effect on the Entity's consolidated financial statements, except for the application of IFRS 16, which is expected to have material effects on the consolidated financial statements.

Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

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

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

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

3. Significant accounting policies

a. Statement of compliance

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

b. Basis of preparation

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

i. Historical cost

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

ii. Fair value

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

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

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

c. Basis of consolidation of financial statements

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

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

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

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

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

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

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

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

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

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

Changes in the Entity's ownership interests in existing subsidiaries

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

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

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

d. Financial instruments

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

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

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

e. Financial assets

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

1. Effective interest method

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

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

2. Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

3. Loans and receivables

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

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

4. Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

f. Inventories and cost of sales

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

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

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

g. Store equipment, leasehold improvements and property

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

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

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

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

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

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

h. Advance payments

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

i. Intangible assets

1. Intangible assets acquired in a business combination

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

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

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

Brand	Country	
Archie's	Colombia	Own Brand
Foster's Hollywood	Spain	Own Brand
Cañas y Tapas	Spain	Own Brand
La Vaca Argentina	Spain	Own Brand
Il Tempietto	Spain	Own Brand
VIPS	Mexico	Own Brand
El Portón	Mexico	Own Brand
La Finca	Mexico	Own Brand

2. Intangible assets acquired separately

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

Brands	Country	Year of expiration
Domino's Pizza	Mexico	2025
	Colombia	2026
	Spain (3)	2019
Starbucks Coffee	Mexico	2037
	Argentina	2027
	Colombia	2033
	Chile	2027
Burger King	Mexico, Argentina, Chile, Colombia and Spain	Depending on opening dates
Chili's Grill & Bar	Mexico	2018
	Colombia	2026
California Pizza Kitchen	Mexico	2022
P.F. Chang's	Mexico (2)	2019
	Argentina, Chile, Brazil, Colombia (2)	2021
The Cheesecake Factory	Mexico and Chile (2)	Depending on opening dates
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 a 10 year extension.

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

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

The Entity has affirmative and negative covenants under the aforementioned agreements, the most important of which are carrying out capital investments and opening establishments. At December 31, 2016, 2015 and 2014, the Entity has fully complied with those obligations.

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

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

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

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

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

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

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

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

k. Business combinations

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

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

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

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

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

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

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Entity reports provisional amounts for the items for which the accounting is incomplete.

Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

i. Goodwill

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

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

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

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

m. Investment in shares of associated companies and joint venture

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

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

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

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

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

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

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

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

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

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

n. Leasing

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

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

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

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

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

o. Foreign currency transactions

In order to consolidate the financial statements of foreign operations carried out independently from the Entity (located in Argentina, Chile, Colombia, Brazil and Spain), which comprise 42%, 38% and 27% of consolidated net income and 25%, 22% and 23% of the total consolidated assets at December 31, 2016, 2015 and 2014, respectively, companies apply the policies followed by the Entity.

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

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

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

p. Employee benefits

Retirement benefits costs from termination benefits

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

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

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

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

Short-term employee benefits

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

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

Statutory employee profit sharing

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

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

q. Income taxes

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

1. Current tax

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

2. Deferred income tax

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

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

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

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

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

3. Current and deferred tax for the year

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

4. Tax on assets

The tax on assets ("IMPAC" for its name in Spanish) expected to be recoverable is recorded as a tax credit and is presented in the consolidated balance sheet in the deferred taxes line item.

r. **Provisions**

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

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

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

Contingent liabilities acquired as part of a business combination

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

s. Financial liabilities and equity instruments

1. Classification as debt or equity

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

2. Financial liabilities

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

3. Other financial liabilities

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

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

t. Derivative financial instruments

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

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

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

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

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

Internal control processes: 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 Santander, S. A., Barclays Bank México S. A., UBS AG Actinver Casa De Bolsa, Banorte-Ixe, BTG Pactual, Citi, Credit Suisse, Grupo Bursátil Mexicano GBM Casa De Bolsa, HSBC Global Research, Interacciones Casa de Bolsa, Intercam Casa de Bolsa, Invex, Itau BBA, Monex Casa de Bolsa, UBS Investment Research, Grupo Financiero BX+, and Vector Casa de Bolsa.

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

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 consolidated statements of income, except if those derivative instruments have been formally designated as and they meet the requirements to be considered hedge instruments associated to a hedge relation.

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

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

u. Revenue recognition

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

Sale of goods

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

Provision of services

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

Dividends

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

Royalties

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

4. Critical accounting judgments and key sources for estimating uncertainties

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

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

a. Critical judgments for applying the accounting policies

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

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

Note 1 and 15 indicates that Grupo Zena is a 71.76% owned subsidiary of Alsea. Based on the contractual agreements executed between the Entity and other investors, Alsea is empowered to appoint or remove the majority of the members of the board of directors, executive commission and management positions of Grupo Zena, which manage the relevant activities of Grupo Zena.

Consequently, the Entity's management concluded that Alsea has the capacity to manage the relevant activities of Grupo Zena and therefore has control over it.

Similarly, Alsea has the obligation under the put option to acquire the non-controlling interest of the other investors (purchase option). This purchase option can be exercised four years after the acquisition date of Grupo Zena. Alsea's management has calculated the financial liability derived from the contractual requirements in effect at the purchase option date, as well as the current value of the financial liability according to the requirements of IAS 32, *Financial Instruments*. Details of this liability can be consulted in Note 19.

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

Note 15 indicates that OFA is an 80% owned subsidiary of the Entity. Based on the contractual agreements signed by the Entity and other investors, the Entity is empowered to appoint and remove most of the members of the board of directors of OFA, which has the power to control the relevant operations of OFA. Therefore, the Entity's management concluded that the Entity has the capacity to unilaterally control the relevant activities of OFA and therefore it has control over OFA.

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

b. Key sources of estimation uncertainty

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

1. Impairment of long-lived assets

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

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

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

3. Income tax valuation

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

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

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

4. Intangible assets

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

5. Fair value measurements and valuation processes

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

In estimating the fair value of an asset or liability, the Entity uses market-observable data to the extent it is available. When level 1 inputs are not available, the Entity engages third party qualified appraisers to perform the valuation. The valuation committee works closely with the qualified external appraiser to establish the appropriate valuation techniques and inputs to the model.

Every three months, the Financial Director reports the findings of the valuation committee to the Entity's board of directors to explain the causes of fluctuations in the fair value of assets and liabilities.

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

6. Contingencies

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

5. Non-monetary transactions

During 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:

- a. During October 2015, Alsea acquired 71.76% of the capital stock of Food Service Project, S.L. ("FSP"), incorporated in Spain, and which, together with its subsidiaries, is denominated "Grupo Zena". Under the terms of this transaction, in this transaction an option to purchase and sale was recorded in accordance with IAS 32, *Financial Instruments: Presentation*, is established (see Note 19).
- b. During 2014, the Entity acquired 82% of Starbucks Coffee Chile, S.A. (Starbucks Chile) and formalized the mergers 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 15.

6. Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, the cash and cash equivalents caption includes cash, banks and investments in money market instruments. The cash and cash equivalents balance included in the consolidated statements of financial position and the consolidated statements of cash flows at December 31, 2016, 2015 and 2014 is comprised as follows:

	2016	2015	2014
Cash	\$ 1,878,770	\$ 632,628	\$ 589,565
Investments with original maturities of under three months	669,072	563,186	523,285
Total cash and cash equivalents	\$ 2,547,842	\$ 1,195,814	\$ 1,112,850

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

7. Customers

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, 2016, 2015 and 2014, the customer balance is comprised as follows:

	2016	2015	2014
Franchises	\$ 315,864	\$ 332,485	\$ 359,008
Credit card	105,115	163,584	188,456
Other	419,059	261,971	233,084
	<u>840,038</u>	<u>758,040</u>	<u>780,548</u>
Allowance for doubtful accounts (1)	(131,658)	(118,097)	(106,799)
	<u>\$ 708,380</u>	<u>\$ 639,943</u>	<u>\$ 673,749</u>

(1) The estimates presented in the consolidated statements of financial position refer to the balances of doubtful accounts aged more than 90 days involving franchisees. The estimates recognized mainly for the concept are \$131,658, \$118,097, \$118,097 and \$106,799 in 2016, 2015 and 2014, respectively. These estimates plus certain guarantees cover the overdue amount. The recognized impairment represents the difference between the book values of these customer account receivables and the current value of the resources expected from their settlement. The Entity does not hold any collateral for these balances.

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

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

	2016	2015	2014
15-60 days	\$ 29,052	\$ 43,648	\$ 28,739
60-90 days	6,126	9,230	11,443
More than 90 days	129,561	95,161	97,270
	<u>\$ 164,739</u>	<u>\$ 148,039</u>	<u>\$ 137,452</u>
Average time overdue (days)	<u>93</u>	<u>60</u>	<u>65</u>

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

8. Inventories

At December 31, 2016, 2015 and 2014, inventories are as follows:

	2016	2015	2014
Food and beverages	\$ 1,383,029	\$ 1,083,807	\$ 836,993
Containers and packaging	55,001	84,235	78,966
Other (1)	145,237	214,983	145,850
Obsolescence allowance	<u>(7,904)</u>	<u>(5,044)</u>	<u>(6,635)</u>
Total	<u>\$ 1,575,363</u>	<u>\$ 1,377,981</u>	<u>\$ 1,055,174</u>

(1) Concepts are o.

(2) Ftoys, uniforms, cleaning utensils, kitchen appliances and souvenirs.

Inventories recognized under cost of sales for inventory consumption in the period related to continuous operations totaled \$11,779,630, \$10,149,276 and \$7,277,438 for the years ended December 31, 2016, 2015 and 2014, respectively. The balances in 2015 and 2014 do not include information from discontinued operations, referred to in Note 29.

9. Advance payments

Advance payments were made for the acquisition of:

	2016	2015	2014
Insurance and other services	\$ 287,426	\$ 220,783	\$ 267,635
Inventories	80,529	62,249	202,051
Lease of locales	34,235	39,354	33,533
	<u>\$ 402,190</u>	<u>\$ 322,386</u>	<u>\$ 503,219</u>

10. Store equipment, leasehold improvements and property

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

	Buildings	Store equipment	Leasehold improvements	Capital lease	Transportation equipment	Computer equipment	Production equipment	Office furniture and equipment	Construction in process	Total
Cost										
Balance at January 1, 2014	\$ 299,165	\$ 2,555,560	\$ 3,796,577	\$ -	\$ 113,331	\$ 439,991	\$ 780,667	\$ 105,625	\$ 588,818	\$ 8,679,734
Acquisitions	65,708	746,674	659,201	-	36,228	74,360	72,332	107,857	233,813	1,996,173
Business acquisition	432,266	1,069,050	1,965,702	321,351	42,120	57,281	97,969	72,672	325,936	4,384,347
Disposals	-	(239,161)	(134,656)	(32,923)	(18,912)	(13,098)	(8,588)	(3,720)	-	(451,058)
Adjustment for currency conversion	-	(22,828)	(96,367)	-	(740)	(6,279)	(1,930)	(5,019)	(3,288)	(136,451)
Balance as of December 31, 2014	797,139	4,109,295	6,190,457	288,428	172,027	552,255	940,450	277,415	1,145,279	14,472,745
Acquisitions	14,783	1,153,047	1,239,062	-	41,315	205,232	41,196	36,161	254,022	2,984,818
Disposals	-	(183,125)	(335,952)	-	(23,113)	(23,962)	(5,903)	(163)	-	(572,218)
Adjustment for currency conversion	(5,617)	(58,817)	(98,739)	-	(1,826)	(4,945)	(1,076)	(4,649)	(11,976)	(187,645)
Balance as of December 31, 2015	806,305	5,020,400	6,994,828	288,428	188,403	728,580	974,667	308,764	1,387,325	16,697,700
Acquisitions	13,795	1,198,304	1,481,780	-	55,179	157,539	14,795	33,612	1,093,240	4,048,244
Business acquisition	37,360	28,963	26,726	-	113	554	-	14,039	-	107,755
Disposals	(1,712)	(182,068)	(289,267)	-	(38,362)	(55,780)	-	(17,656)	-	(584,845)
Adjustment for currency conversion	11,545	260,565	463,430	-	8,306	50,196	(11)	37,004	26,442	857,477
Balance as of December 31, 2016	<u>\$ 867,293</u>	<u>\$ 6,326,164</u>	<u>\$ 8,677,497</u>	<u>\$ 288,428</u>	<u>\$ 213,639</u>	<u>\$ 881,089</u>	<u>\$ 989,451</u>	<u>\$ 375,763</u>	<u>\$ 2,507,007</u>	<u>\$ 21,126,331</u>
Depreciation										
Balance at January 1, 2014	\$ 77,023	\$ 1,137,365	\$ 1,830,817	\$ -	\$ 71,196	\$ 273,200	\$ 479,700	\$ 46,036	\$ -	\$ 3,915,337
Charge for depreciation for the year	7,848	400,780	399,389	11,031	29,075	72,539	48,654	9,560	-	978,876
Adjustment for currency conversion	-	(15,678)	(22,622)	-	(444)	(5,504)	(1,496)	(3,737)	-	(49,481)
Disposals	-	(98,798)	(247,797)	(16,212)	(13,933)	(11,537)	(4,327)	(420)	-	(393,024)
Balance as of December 31, 2014	84,871	1,423,669	1,959,787	(5,181)	85,894	328,698	522,531	51,439	-	4,451,708
Charge for depreciation for the year	8,743	633,620	727,164	14,708	33,161	112,523	45,595	20,827	-	1,596,341
Adjustment for currency conversion	-	(22,824)	(42,948)	-	(1,094)	(3,406)	(1,490)	3	-	(71,759)
Disposals	-	(141,946)	(229,691)	-	(20,106)	(22,056)	(2,421)	(146)	-	(416,366)
Balance as of December 31, 2015	93,614	1,892,519	2,414,312	9,527	97,855	415,759	564,215	72,123	-	5,559,924
Charge for depreciation for the year	4,115	783,655	958,511	13,061	35,639	142,494	23,946	28,253	-	1,989,674
Adjustment for currency conversion	904	156,143	229,462	-	3,240	38,240	23	22,497	-	450,509
Disposals	-	(148,666)	(286,532)	-	(36,610)	(57,654)	(737)	(17,022)	-	(547,221)
Balance as of December 31, 2016	<u>\$ 98,633</u>	<u>\$ 2,683,651</u>	<u>\$ 3,315,753</u>	<u>\$ 22,588</u>	<u>\$ 100,124</u>	<u>\$ 538,839</u>	<u>\$ 587,447</u>	<u>\$ 105,851</u>	<u>\$ -</u>	<u>\$ 7,452,886</u>
Net cost										
Balance as of December 31, 2014	<u>\$ 712,268</u>	<u>\$ 2,685,626</u>	<u>\$ 4,230,670</u>	<u>\$ 293,609</u>	<u>\$ 86,133</u>	<u>\$ 223,557</u>	<u>\$ 417,919</u>	<u>\$ 225,976</u>	<u>\$ 1,145,279</u>	<u>\$ 10,021,037</u>
Balance as of December 31, 2015	<u>\$ 712,691</u>	<u>\$ 3,127,881</u>	<u>\$ 4,580,516</u>	<u>\$ 278,901</u>	<u>\$ 90,548</u>	<u>\$ 312,821</u>	<u>\$ 410,452</u>	<u>\$ 236,641</u>	<u>\$ 1,387,325</u>	<u>\$ 11,137,776</u>
Balance as of December 31, 2016	<u>\$ 768,660</u>	<u>\$ 3,642,513</u>	<u>\$ 5,361,744</u>	<u>\$ 265,840</u>	<u>\$ 113,515</u>	<u>\$ 342,250</u>	<u>\$ 402,004</u>	<u>\$ 269,912</u>	<u>\$ 2,507,007</u>	<u>\$ 13,673,445</u>

11. Intangible assets

a. Intangible assets are comprised as follows:

	Cost	Brand rights	Commissions for store opening	Franchise and use of locale rights	Licenses and developments	Goodwill	Total					
Balance at January 1, 2014	\$	2,134,298	\$	381,133	\$	701,620	\$	452,182	\$	1,254,476	\$	4,923,709
Acquisitions		94,824		243		158,933		77,308		62,676		393,984
Business acquisition		782,103		-		16,241		38,072		9,016,715		9,853,131
Adjustment for currency conversion		8,986		143		2,577		5,258		42,175		59,139
Valuation adjustment (note 2a)		4,795,642		-		-		-		(3,494,777)		1,300,865
Disposals		(2,598)		(2,875)		(4,241)		(359)		-		(10,073)
Balance as of December 31, 2014		7,813,255		378,644		875,130		572,461		6,881,265		16,520,755
Acquisitions		94,601		603		173,013		143,255		-		411,472
Adjustment for currency conversion		15,359		(1,031)		(6,574)		(841)		-		6,913
Disposals		(9,313)		(8,227)		(5,219)		(275)		-		(23,034)
Balance as of December 31, 2015		7,913,902		369,989		1,036,350		714,600		6,881,265		16,916,106
Acquisitions		201,442		6,829		139,489		203,238		-		550,998
Business acquisition		245,156		-		-		-		-		245,156
Adjustment for currency conversion		90,006		14,810		5,519		38,493		-		148,828
Disposals		(4,503)		(7,060)		(2,785)		(1,835)		-		(16,183)
Balance as of December 31, 2016	\$	8,446,003	\$	384,568	\$	1,178,573	\$	954,496	\$	6,881,265	\$	17,844,905
Amortization												
Balance at January 1, 2014	\$	599,217	\$	369,846	\$	217,806	\$	333,844	\$	16,953	\$	1,537,666
Amortization		206,596		3,800		65,861		78,187		-		354,444
Adjustment for currency conversion		6,514		114		7		6,078		-		12,713
Disposals		(1,312)		(2,634)		(3,692)		(51)		-		(7,689)
Balance as of December 31, 2014 as adjusted		811,015		371,126		279,982		418,058		16,953		1,897,134
Amortization		128,657		9,693		95,598		117,608		-		351,556
Adjustment for currency conversion		(593)		(3,243)		(3,243)		(357)		-		(7,436)
Disposals		(3,880)		(10,472)		(1,732)		(68)		-		(16,152)
Balance as of December 31, 2015		935,199		367,104		370,605		535,241		16,953		2,225,102
Amortization		173,917		8,571		77,295		138,778		-		398,561
Adjustment for currency conversion		10,144		12,887		515		34,738		-		58,284
Disposals		(37,901)		(7,390)		(3,477)		(3,610)		-		(52,378)
Balance as of December 31, 2016	\$	1,081,359	\$	381,172	\$	444,938	\$	705,147	\$	16,953	\$	2,629,569
Net cost												
Balance as of December 31, 2014	\$	7,002,240	\$	7,518	\$	595,148	\$	154,403	\$	6,864,312	\$	14,623,621
Balance as of December 31, 2015	\$	6,978,703	\$	2,885	\$	665,745	\$	179,359	\$	6,864,312	\$	14,691,004
Balance as of December 31, 2016	\$	7,364,644	\$	3,396	\$	733,635	\$	249,349	\$	6,864,312	\$	15,215,336

12. Operating lease agreements

a. Operating leases

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

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

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

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

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

	2016	2015	2014
Rental expense	\$ 3,274,251	\$ 2,851,083	\$ 1,805,853

b. Commitments non-cancellable operating leases

	2016	2015	2014
Less than a year	\$ 1,924,672	\$ 1,744,166	\$ 1,533,805
Between one and five years	8,662,305	7,833,383	6,888,298

c. Financial lease liabilities

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

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

	Minimum payments of leases		
	2016	2015	2014
No more than one year	\$ 32,398	\$ 32,789	\$ 33,723
More than one year and not more than five years	97,195	97,195	162,569
More than five years	536,997	566,261	533,685
	<u>666,590</u>	<u>696,245</u>	<u>729,977</u>
Less future finance charges	(358,956)	(381,915)	(407,757)
Minimum lease payments	<u>\$ 307,634</u>	<u>\$ 314,330</u>	<u>\$ 322,220</u>

	Present value of minimum payments of leases		
	2016	2015	2014
No more than one year	\$ 6,799	\$ 7,190	\$ 7,878
More than one year and not more than five years	20,398	20,398	33,651
More than five years	280,437	286,742	280,691
	<u>307,634</u>	<u>314,330</u>	<u>322,220</u>
Present value of minimum lease payments	<u>\$ 307,634</u>	<u>\$ 314,330</u>	<u>\$ 322,220</u>

	2016	2015	2014
Included in the consolidated financial statements as:			
Short-term financial liability	\$ 6,799	\$ 7,190	\$ 7,878
Long-term financial liability	300,835	307,140	314,342
	<u>\$ 307,634</u>	<u>\$ 314,330</u>	<u>\$ 322,220</u>

13. Investment in subsidiaries

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

Name of Subsidiary	Principal activity	2016	2015	2014
Panadería y Alimentos para Food Service, S.A. de C.V.	Distribution of Alsea Brand foods	100.00%	100.00%	100.00%
Café Sirena, S. de R.L. de C.V.	Operator of the Starbucks Brand in Mexico	100.00%	100.00%	100.00%
Operadora de Franquicias Alsea, S.A. de C.V.	Operator of the Burger King Brand in Mexico	80.00%	80.00%	80.00%
Operadora y Procesadora de Productos de Panificación, S.A. de C.V.	Operator of the Domino's Pizza Brand in Mexico	100.00%	100.00%	100.00%
Gastrosur, S.A. de C.V.	Operator of the Chili's Grill & Bar Brand in Mexico	100.00%	100.00%	100.00%
Fast Food Sudamericana, S.A.	Operator of the Burger King Brand in Argentina	100.00%	100.00%	100.00%
Fast Food Chile, S.A.	Operator of the Burger King Brand in Chile	100.00%	100.00%	100.00%
Starbucks Coffee Argentina, S.R.L.	Operator of the Starbucks Brand in Argentina	100.00%	100.00%	100.00%
Dominalco, S.A.	Operator of the Domino's Pizza Brand in Colombia	93.30%	93.25%	95.00%
Servicios Múltiples Empresariales ACD S.A. de C.V. SOFOM E.N.R.	Operator of Factoring and Financial Leasing in Mexico	100.00%	100.00%	100.00%
Asian Bistro Colombia, S.A.S.	Operator of the P.F. Chang's Brand in Colombia	100.00%	100.00%	100.00%
Asian Bistro Argentina, S.R.L.	Operator of the P.F. Chang's Brand in Argentina	100.00%	100.00%	100.00%
Operadora Alsea en Colombia, S.A.	Operator of the Burger King Brand in Colombia	94.94%	94.91%	95.00%
Asian Food Ltda.	Operator of the P.F. Chang's Brand in Chile	100.00%	100.00%	100.00%
Grupo Calpik, S.A.P.I. de C.V.	Operator of the California Pizza Kitchen Brand in Mexico	100.00%	100.00%	100.00%
Especialista en Restaurantes de Comida Estilo Asiática, S.A. de C.V.	Operator of the P.F. Chang's Chang 's and Pei Wei in Mexico	100.00%	100.00%	100.00%
Distribuidora e Importadora Alsea, S.A. de C.V.	Distributor of foods and production materials for the Alsea and related Brands	100.00%	100.00%	100.00%
Italcafe, S.A. de C.V.	Operator of Italianni's Brand	100.00%	100.00%	100.00%
Grupo Amigos de San Ángel, S.A. de C.V.	Operator of Italianni's Brand	100.00%	100.00%	89.77%
Grupo Amigos de Torreón, S.A. de C.V.	Operator of Italianni's Brand	100.00%	100.00%	100.00%
Grupo Amigos de Perisur, S.A. de C.V. (1)	Operator of Italianni's Brand	-	100.00%	100.00%
Starbucks Coffee Chile, S.A.	Operator of the Starbucks Brand in Chile	100.00%	100.00%	100.00%
Distribuidora e Importadora Alsea Colombia, S.A.S.	Distributor of food and supplies for Alsea Brands in Colombia	100.00%	100.00%	100.00%
Estrella Andina, S.A.S.	Operator of the Starbucks Brand in Colombia	70.00%	70.00%	70.00%
Operadora Vips, S. de R.L. de C.V.	Operator of Vips Brand	100.00%	100.00%	100.00%
OPQR, S.A. de C.V.	Operator Brand Cheesecake Factory in Mexico	100.00%	100.00%	100.00%
Food Service Project, S.L. (Grupo Zena)	Operator of Spain	71.76%	71.76%	71.76%
Gastrococina Sur, S.P.A.	Operator of Chili's Grill & Bar Brand in Chile	100.00%	-	-
Gastronomía Italiana en Colombia S.A.S.	Operator of Archie 's Brand in Colombia	100.00%	-	-

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

14. Investment in shares of associated companies

Investment in the non-controlling interest of Blue Stripes Chile

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

Investment in the non-controlling interest of Stripes Chile

During August 2014, Alsea reached an agreement to contribute 33% of the capital stock of Stripes Chile, entity incorporated in Chile. Initial contribution by Alsea amounted to \$4,041, recognized in the consolidated statements of financial position as investment in associated companies. The remaining 64% was contributed by Grupo Axo, associated company. In accordance with the bylaws, Alsea will not have control over such operation.

At December 31, 2016, 2015 and 2014, the investment in shares of associated companies is comprised of the Entity's direct interest in the capital stock of the companies listed below:

	2016			Main operations	Interest in associated company		
	(%)	(%)	(%)		12/31/2016	12/31/2015	12/31/2015
Grupo Axo, S.A.P.I. de C.V. (2) (4)	25.00%	25.00%	25.00%	Sales of prestigious Brands of clothes and accessories in Mexico	\$ 995,596	\$ 892,169	\$ 826,067
Blue Stripes Chile SPA (1)	33.33%	33.33%	-	Sales of prestigious Brands of clothes and accessories in Chile	9,717	6,511	-
Stripes Chile SPA (3)	33.33%	33.33%	33.33%	Sales of prestigious brands of clothes and accessories in Chile	30,662	24,282	3,757
Total					<u>\$1,035,975</u>	<u>\$ 922,962</u>	<u>\$ 829,824</u>

	(%)			Main operations	Equity in results		
	2016	2015	2014		12/31/2016	12/31/2015	12/31/2015
Grupo Axo, S.A.P.I. de C.V.	25.00%	25.00%	25.00%	Sales of prestigious Brands of clothes and accessories in Mexico	\$ 65,989	\$ 27,396	\$ 32,663
Blue Stripes Chile SPA (1)	33.33%	33.33%	-	Sales of prestigious Brands of clothes and accessories in Chile	1,506	2	-
Stripes Chile SPA	33.33%	33.33%	33.33%	Sales of prestigious Brands of clothes and accessories in Chile	382	305	(410)
Total					<u>\$ 67,877</u>	<u>\$ 27,703</u>	<u>\$ 32,253</u>

(1) Stripes Chile SPA is a direct subsidiary of Grupo Axo together with another subsidiary of the Entity.
(2) In 2015 and 2014, contributions were made to increase the capital in Grupo Axo, by \$38,706 and \$4,739, respectively.

(3) In 2015, the contribution to the capital increase of \$20,935 in Stripes Chile made.

(4) In 2016, Grupo Axo presents movements in its stockholders' equity resulting from the acquisition of businesses, the option to purchase unincorporated interests in associates and hedging financial instruments for \$37,438, which are presented in the Consolidated Statement of Changes in Stockholders' Equity.

Stripes Chile SPA

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

	2016	2015	2014
Current assets	\$ 70,058	\$ 43,621	\$ 15,609
Non-current assets	\$ 60,025	\$ 55,315	\$ 4,731
Current liabilities	\$ 38,088	\$ 26,081	\$ 9,068

	2016	2015	01/08/2014 to 31/12/2014
Income	\$ 132,312	\$ 85,486	\$ 10,764
Net profit (loss) for the period	\$ 1,146	\$ 915	\$ (1,230)

Blue Stripes Chile SPA

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

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

	2016	01/06/2015 to 31/12/2015
Income	\$ 63,642	\$ 11,904
Net profit for the period	\$ 4,518	\$ 5

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

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

	2016	2015	2014
Current assets	\$ 3,656,612	\$ 2,380,902	\$ 1,551,287
Non-current assets	\$ 3,182,682	\$ 3,169,338	\$ 1,276,883
Current liabilities	\$ 2,168,965	\$ 1,733,052	\$ 752,650
Non-current liabilities	\$ 2,927,493	\$ 2,488,060	\$ 1,010,797
Revenues	\$ 6,144,101	\$ 4,504,291	\$ 2,531,914
Net profit for the period	\$ 263,956	\$ 109,584	\$ 130,654

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

	2016	2015	2014
Net assets of the associated entity	\$ 1,742,836	\$ 1,329,128	\$ 1,064,723
Entity's interest in Grupo Axo	\$ 435,709	\$ 332,282	\$ 266,180
Plus: goodwill	559,887	559,887	559,887
Carrying value of the Entity's interest in Grupo Axo	\$ 995,596	\$ 892,169	\$ 826,067

15. Business combination

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

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

Acquisition of Archie 's

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

Below is an analysis of the preliminary allocation of the acquisition cost over the fair values of the net assets acquired and that are in the measurement stage. Since it is in the measurement period, which is estimated to be completed in April 2017, the preliminary amounts below are subject to change:

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

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

Acquisition of Grupo Zena

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

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

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

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

Concept	Preliminary book entry	Adjustment for valuation	Fair value
Current assets:			
Cash and cash equivalents	\$ 89,287	\$ -	\$ 89,287
Accounts receivable and other accounts receivable	245,968	-	245,968
Non-current assets:			
Store equipment, leasehold improvements and property, net	1,231,979	261,998	1,493,977
Intangible assets	470,473	1,222,642	1,693,115
Reassigning Goodwill included in Grupo Zena	1,313,786	(1,313,786)	-
Deferred income taxes	174,859	-	174,859
Current liabilities:			
Suppliers and other accounts payable	(1,279,228)	-	(1,279,228)
Non-current liabilities:			
Deferred income taxes	-	(445,393)	(445,393)
Long-term debt	(1,845,132)	-	(1,845,132)
Other long-term liabilities	(165,459)	-	(165,459)
Fair value of net assets	236,533	(274,540)	(38,007)
Considerations paid in cash	1,794,245	-	1,794,245
Fair value of non-controlling interest	706,098	(101,521)	604,577
Total consideration paid	2,500,343	(101,521)	2,398,822
Goodwill	\$ 2,263,810	\$ 173,018	\$ 2,436,829

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

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

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

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

Acquisition of VIPS

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

The acquisition does not consider any contingent payment.

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

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

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

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

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

As from the acquisition date and until December 31, 2014, VIPS has contributed \$4,016,325 to consolidated revenues and \$111,628 to the profit before income taxes for the period. If the acquisition had occurred at beginning of year, Alsea's consolidated net profit for the period would have been \$683,119 and revenues would have been \$24,723,880. Acquisition expenses related to this transaction amounted to \$9,357, which is shown within other expenses.

Acquisition of the controlling interest in Starbucks Coffee Chile

In September 2013, Alsea acquired 82% of Starbucks Coffee Chile, S.A. (Starbucks Chile), which operates the Starbucks Restaurants in Chile. Through this transaction, the shareholding and voting rights of Alsea increased from 18% to 100%, thus allowing the Entity to acquire control, while constituting a business combination recorded by means of the purchase method according to IFRS.

In August 2014, the acquisition measurement period concluded. An analysis of the assignment of the acquisition cost based on the fair values of the acquired net assets at the acquisition date is presented below. Certain interim accounting changes were made to the acquisition at that date, as detailed below:

Concept	Preliminary book entry	Adjustment for valuation	Fair value
Current assets			
Cash and cash equivalents	\$ 128,656	\$ -	\$ 128,656
Accounts receivable and other accounts receivable	89,427	-	89,427
Non-current assets:			
Store equipment, leasehold improvements and property, net	141,993	21,758	163,751
Intangible assets	6,132	558,180	564,312
Deferred income taxes	-	(173,981)	(173,981)
Current liabilities:			
Suppliers and other accounts payable	(88,683)	-	(88,683)
Non-current liabilities:			
Other long-term liabilities	(13,124)	-	(13,124)
Fair value of net assets	264,401	405,957	670,358
Fair value of non-controlling interest	47,593	62,683	110,276
Consideration paid in cash	928,595	-	928,595
Total consideration paid	976,188	62,683	1,038,871
Goodwill	\$ 711,787	\$ (343,274)	\$ 368,513

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. 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 \$799,939, corresponding to the consideration paid in cash of \$928,595, less cash and cash and cash equivalent balances acquired for \$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 agreement 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 its business, the related acquisition accounting was applied as of the acquisition date and according to IFRS. The acquisition price did not include any contingent consideration.

In April 2014, the acquisition measurement period concluded. An analysis of the assignment of the acquisition cost based on the fair values of the acquired net assets at the acquisition date is presented below. Certain interim accounting changes were made to the acquisition at that date, as detailed below:

Concept	Preliminary book entry	Adjustment for valuation	Fair value
Current assets			
Cash and cash equivalents	\$ 47,828	\$ -	\$ 47,828
Accounts receivable and other accounts receivable	58,300		
Non-current assets:			
Store equipment, leasehold improvements and property, net	283,531	131,697	415,228
Intangible assets	25,843	92,116	117,959
Deferred income taxes	62,803	(67,144)	(4,341)
Non-current liabilities:			
Other long-term liabilities	(73,547)	(26,847)	(100,394)
Fair value of net assets	404,758	129,822	534,580
Consideration paid in actions	217,534	7,629	225,163
Consideration paid in cash	333,895	-	333,895
Total consideration paid	551,429	7,629	559,058
Goodwill	\$ 146,671	\$ (122,193)	\$ 24,478

The consideration paid in OFA shares, which is in the measurement phase, totals \$225,163 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.

During 2013, as from the acquisition date, Burger King Mexicana 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, 2014, 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 equivalents balances acquired totaling \$47,828.

16. Goodwill

Assignment of goodwill to cash generating units

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

	2016	2015	2014
Burger King	\$ 1,336,967	\$ 1,336,967	\$ 1,336,967
Domino's Pizza	1,078,622	1,078,622	1,078,622
Chili's	26,614	26,614	26,614
Italianni's	785,816	785,816	785,816
VIPS	3,058,697	3,058,697	3,058,697
Starbucks Coffee	368,513	368,513	368,513
Foster's Hollywood	198,598	198,598	198,598
La Vaca Argentina	3,270	3,270	3,270
Il Tempietto	377	377	377
Cañas y Tapas	6,838	6,838	6,838
	<u>\$ 6,864,312</u>	<u>\$ 6,864,312</u>	<u>\$ 6,864,312</u>

At December 31, 2016, 2015 and 2014, studies performed on impairment testing concluded that goodwill shows no signs of impairment.

17. Long-term debt

Long-term debt at December 31, 2016, 2015 and 2014 is comprised of unsecured loans, as shown below:

Bank	Type of credit	Currency	Rate	Maturity	2016	2015	2014
Sindicado	Simple credit	Euros	1.89% (Fixed rate)	2020	\$ 2,274,063	\$ 2,027,154	\$ 2,088,334
Scotiabank Inverlat, S.A.	Simple credit	Mexican pesos	7.08% (Variable rate TIIE +0.97%)	2019	1,957,553	2,032,790	-
Bank of América	Simple credit	Mexican pesos	7.30% (Variable rate TIIE +1.19%)	2021	1,884,000	-	-
Bank of América	Simple credit	Mexican pesos	6.11% (Fixed rate)	2019	1,000,000	1,000,000	-
Bank of Tokyo	Simple credit	Mexican pesos	7.06% (Variable rate TIIE +1.35%)	2021	996,078	574,063	-
Banco Nacional de Comercio Exterior S.N.C. (Bancomext)	Simple credit	Mexican pesos	7.45% (Variable rate TIIE +1.34%)	2024	866,400	-	-
Banco Santander, S.A.	Simple credit	Mexican pesos	7.11% (Variable rate TIIE +1.00%)	2021	796,267	-	-
Banamex	Simple credit	Mexican pesos	6.86% (Variable rate TIIE +0.75%)	2020	430,770	-	-
Banco Citibank Argentina	Simple credit	Mexican pesos	27% (Fixed rate)	2016	303,355	47,974	48,533
BBVA Francés	Simple credit	Mexican pesos	22% (Fixed rate)	2016	146,200	1,788	3,829
Banco HSBC, S.A.	Simple credit	Mexican pesos	24.5% (Fixed rate)	2017	97,740	-	-
Santander Chile, S.A.	Simple credit	Mexican pesos	4.02% (Fixed rate)	2017	83,696	69,777	-
Helm Bank USA	Simple credit	Mexican pesos	12.29% (Variable rate DTF +5.30%)	2020	14,922	-	-
BBVA Bancomer, S.A.	Simple credit	Mexican pesos	4.57% (Variable rate TIIE +1.25%)	2014	-	-	1,741,580
Banco Nacional de México, S.A.	Simple credit	Mexican pesos	5.07% (Variable rate TIIE +1.75%)	2014	-	-	1,276,533
Scotiabank Inverlat, S.A.	Simple credit	Mexican pesos	4.50% (Variable rate TIIE +1.18%)	2014	-	-	1,013,775
Banco Nacional de México, S.A.	Simple credit	Mexican pesos	4.82% (Variable rate TIIE +1.50%)	2014	-	-	705,484
BBVA Bancomer, S.A.	Simple credit	Mexican pesos	4.82% (Variable rate TIIE +1.50%)	2014	-	-	604,666
BBVA Bancomer, S.A.	Simple credit	Mexican pesos	4.82% (Variable rate TIIE +1.50%)	2014	-	-	588,032
Banco Santander (México), S.A.,	Simple credit	Mexican pesos	3.93% (Fixed rate)	2014	-	-	300,000
Banco Santander (México), S.A.,	Simple credit	Mexican pesos	4.22% (Variable rate TIIE +0.90%)	2014	-	-	205,721
Banco Nacional de México, S.A.	Simple credit	Mexican pesos	4.82% (Variable rate TIIE +1.50%)	2014	-	-	89,336
Banco Santander (México), S.A.,	Simple credit	Mexican pesos	3.98% (Fixed rate)	2014	-	-	82,000
					10,851,044	5,753,546	8,747,823
			Less – current portion		(1,107,238)	(734,824)	(1,377,157)
			Long-term debt maturities		\$ 9,743,806	\$ 5,018,722	\$ 7,370,666

Annual long-term debt maturities at December 31, 2016 are as follows:

Year	Amount
2018	\$ 919,605
2019	2,815,815
2020-2024	<u>6,008,386</u>
	<u>\$ 9,743,806</u>

Bank loans include certain affirmative and negative covenants, such as maintaining certain financial ratios. At December 31, 2016, 2015 and 2014, all such obligations have been duly met.

18. Debt instruments

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

In March 2015, Alsea placed debt instruments worth \$3,000,000 over 5 years as from the issuance date, maturing in March 2020. Those instruments will accrue interest at the 28-day TIIE rate plus 1.10 percentage points; and other debt instrument worth \$1,000,000 over 10 years as from the issue date, maturing in March 2016. Those instruments will accrue interest at a fixed rate of 8.07%.

The balance at December 31, 2016, 2015 and 2014 amounts to \$3,988,845, \$6,479,795 y \$2,491,356, respectively.

Year	Amount
2019	\$ 2,988,845
2025	<u>1,000,000</u>
	<u>\$ 3,988,845</u>

19. Obligation over put option

As mentioned in Note 1i, the Entity acquired Grupo Zena; Alsea has the obligation over put option to purchase the non-controlling interest of the other investors (call option) starting in the fourth year since the date of acquisition. The amount represents the present value of the estimated debt that will be paid at the time of exercising the put option under the terms of the contract. The liability will be updated each year until the option date, and the effects will be recognized in the consolidated statements of income, as stated by IAS 32, Financial instruments: Presentation. The financial liability of the put option amounts to \$3,185,096, \$2,777,328 and \$2,673,053, at December 31, 2016, 2015 and 2014, respectively. The revaluation of this option as of December 31, 2016, generated a loss in results by \$407,768 and \$104,275, respectively and is included in 'Changes in the fair value of financial instruments' in the consolidated statements of income.

20. Income taxes

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

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

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

At December 31, 2016, the ISR liability derived from the effects of benefits and tax deconsolidation will be paid in the following years.

Year of expiration	Amount
2017	\$ 22,946
2018	<u>18,846</u>
	<u>\$ 41,792</u>

In Chile, in September 2014, the government promulgates in its tax reform increased the rate gradually according to the following 21% in 2014, 22.5% to 2015, 24% to 2016, 25.5% to 2017 and to 2018 will be of 27%, based taxation system chose for the years 2017 and 2018. The change in the First Category Tax was pronounced in July 2010.

In Colombia, the tax provisions provide that the rate applicable to income tax for the years 2014 and 2015 is 25% and the income tax for equity –CREE is 9%, respectively. Also, a surtax CREE 5% for companies whose profit is equal to or greater than 800 million sets.

In Argentina i.- Tax on income The Entity applies the deferred tax method to recognize the accounting effects of taxes on earnings at the 35% rate. ii.- Tax on presumptive minimum earnings (IGMP for its acronym in Spanish), the Entity determines IGMP applying the current 1% rate to assets computable at each year-end closing, iii.- Tax on personal goods of individuals or business entities residing abroad, the tax is determined applying the 0.5% to the proportional value of equity at the year-end closing and it is considered a single and final payment.

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

a. Income taxes recognized in income

	2016	2015	2014
Income tax (tax basis)	\$ 825,874	\$ 691,060	\$ 597,045
Deferred income tax	(296,641)	(201,141)	(232,452)
	<u>\$ 529,233</u>	<u>\$ 489,919</u>	<u>\$ 364,593</u>

The tax expense attributable to income before ISR differs from that arrived at by applying the 30% statutory rate in 2016, 2015 and 2014 due to the following items:

	2016	2015	2014
Statutory income tax rate	30%	30%	30%
Non-deductible expenses	3%	8%	7%
Effects of inflation and others	2%	2%	(1%)
Estimation for unamortized tax losses	(3%)	(8%)	-
Effective consolidated income tax rate	<u>32%</u>	<u>32%</u>	<u>36%</u>

b. Deferred taxes - balance sheet

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

	2016	2015	2014
Deferred (assets) liabilities:			
Estimation for doubtful accounts and inventory obsolescence	\$ (15,698)	\$ (36,942)	\$ (34,028)
Liability provisions	(740,365)	(488,383)	(447,253)
Advances from customers	(16,176)	(105,167)	(70,341)
Unamortized tax losses	(82,078)	(102,640)	(75,874)
Recoverable asset tax	(12,269)	(12,269)	(12,269)
Store equipment, leasehold improvements and property	769,288	882,625	1,208,752
Other assets	(2)	5,752	7,172
Advance payments	(84,223)	71,418	623,172
	<u>\$ (181,523)</u>	<u>\$ 214,394</u>	<u>\$ 623,172</u>

c. Deferred tax in statement of financial position

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

	2016	2015	2014
Deferred tax assets	\$ 2,068,996	\$ 1,710,943	\$ 1,320,881
Deferred tax liabilities	1,887,473	1,925,337	1,944,053
	<u>\$ (181,523)</u>	<u>\$ 214,394</u>	<u>\$ 623,172</u>

d. Deferred income tax balances

2016	Beginning balance	Recognized in profit or loss	Recognized in stockholders' equity	Acquisitions	Ending balance
Temporary differences					
Estimation for doubtful accounts and inventory obsolescence	\$ (36,942)	\$ 21,244	\$ -	\$ -	\$ (15,698)
Liability provisions	(488,383)	(196,680)	(55,302)	-	(740,365)
Advances from customers	(105,167)	88,991	-	-	(16,176)
Store equipment, leasehold improvements and property	882,625	(54,559)	(58,778)	-	769,288
Prepaid expenses	71,418	(149,883)	(5,758)	-	(84,223)
Other assets	5,752	(5,754)	-	-	(2)
	<u>329,303</u>	<u>(296,641)</u>	<u>(119,838)</u>	<u>-</u>	<u>(87,176)</u>
Tax loss carryforwards and unused tax credits					
Tax loss carryforwards	(102,640)	-	20,562	-	(82,078)
Recoverable IMPAC	(12,269)	-	-	-	(12,269)
	<u>(114,909)</u>	<u>-</u>	<u>20,562</u>	<u>-</u>	<u>(94,347)</u>
	<u>\$ 214,394</u>	<u>\$ (296,641)</u>	<u>\$ (99,276)</u>	<u>\$ -</u>	<u>\$ (181,523)</u>

2015	Beginning balance	Recognized in profit or loss	Recognized in stockholders' equity	Acquisitions	Ending balance
Temporary differences					
Estimation for doubtful accounts and inventory obsolescence	\$ (34,028)	\$ (2,914)	\$ -	\$ -	\$ (36,942)
Liability provisions	(447,253)	(14,330)	(26,800)	-	(488,383)
Advances from customers	(70,341)	(34,826)	-	-	(105,167)
Store equipment, leasehold improvements and property	1,208,752	(316,476)	(9,651)	-	882,625
Prepaid expenses	47,013	168,825	(144,420)	-	71,418
Other assets	7,172	(1,420)	-	-	5,752
	<u>711,315</u>	<u>(201,141)</u>	<u>(180,871)</u>	<u>-</u>	<u>329,303</u>
Tax loss carryforwards and unused tax credits					
Tax loss carryforwards	(75,874)	-	(26,766)	-	(102,640)
Recoverable IMPAC	(12,269)	-	-	-	(12,269)
	<u>(88,143)</u>	<u>-</u>	<u>(26,766)</u>	<u>-</u>	<u>(114,909)</u>
	<u>\$ 623,172</u>	<u>\$ (201,141)</u>	<u>\$ (207,637)</u>	<u>\$ -</u>	<u>\$ 214,394</u>

2014	Beginning balance	Recognized in profit or loss	Recognized in stockholders' equity	Acquisitions/disposals	Ending balance
Temporary differences					
Estimation for doubtful accounts and inventory obsolescence	\$ (10,863)	\$ (23,165)	\$ -	\$ -	\$ (34,028)
Liability provisions	(368,176)	(71,488)	(7,589)	-	(447,253)
Advances from customers	(18,565)	(51,776)	-	-	(70,341)
Store equipment, leasehold improvements and property	(230,345)	(79,877)	16,135	1,502,839	1,208,752
Prepaid expenses	53,049	(1,094)	(4,942)	-	47,013
Other assets	12,224	(5,052)	-	-	7,172
	<u>(562,676)</u>	<u>(232,452)</u>	<u>3,604</u>	<u>1,502,839</u>	<u>711,315</u>
Tax loss carryforwards and unused tax credits					
Tax loss carryforwards	(166,337)	-	90,463	-	(75,874)
Recoverable IMPAC	(12,269)	-	-	-	(12,269)
	<u>(178,606)</u>	<u>-</u>	<u>90,463</u>	<u>-</u>	<u>(88,143)</u>
	<u>\$ (741,282)</u>	<u>\$ (232,452)</u>	<u>\$ 94,067</u>	<u>\$ 1,502,839</u>	<u>\$ 623,172</u>

The benefits of restated tax loss carryforwards and recoverable IMPAC for which the deferred ISR asset and tax credit, respectively, have been (in such case partially) recognized, can be recovered subject to certain conditions. Expiration dates and restated amounts as of December 31, 2016, are:

Year of maturity	Amortizable losses
2020	\$ 45,549
2023	106,662
2024	91,387
2025	372,433
2026	163,759
	<u>\$ 779,789</u>

21. Employee retirement benefits

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

The total expense recognized in profit or loss and other comprehensive income is \$83,815 in 2016.

The expense for employee benefits as of December 31, 2016, 2015 and 2014 was \$9,465,461, \$8,171,055 and \$5,332,897, respectively, not including the cost defined benefit described below.

The net cost for the period related to obligations derived from seniority premiums amounted to \$580, \$6,041 and \$29,661 in 2016, 2015 and 2014, respectively.

22. Financial instruments

a. Capital risk management

The Entity manages its capital to ensure that the companies that it controls are able to continue operating as a going concern while they maximize the yield for their shareholders by streamlining the debt and equity balances. The Entity's general strategy has not changed in relation to 2015.

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

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

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

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

For the years ended December 31, 2016, 2015 and 2014, 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, 2016, 2015 and 2014, the financial restriction established in the Entity's loan agreements relates to the Net Debt to EBITDA ratio for the last twelve months. The Entity complied with the established ratio.

b. Financial instrument categories

	2016	2015	2014
Financial assets			
Cash and cash equivalents	\$ 2,547,842	\$ 1,195,814	\$ 1,112,850
Loans and accounts receivable at amortized cost	953,638	904,853	895,543
Financial liabilities at amortized cost			
Suppliers	3,901,972	3,013,091	2,694,015
Accounts payable and accrued liabilities	909,156	635,802	601,854
Current maturities of long-term debt	1,107,238	734,824	1,377,157
Current maturities of financial lease liabilities	6,799	7,190	7,878
Long-term debt, not including current maturities	9,743,806	5,018,722	7,370,666
Non-current financial lease liabilities	300,835	307,140	314,342
Debt instruments	3,988,845	6,479,795	2,491,356

c. Objectives of managing financial risks

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

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

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

d. Market risk

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

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

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

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

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

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

e. Currency exchange risk management

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

Note 32 shows foreign currency positions at December 31, 2016, 2015 and 2014. 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, 2016, 2015 and 2014.

Type of derivative, security or contract	Position	Objective of the hedging	Underlying / reference variable			Notional amount/ face value (thousands of USD)			Fair value (thousands of USD)			Amounts of maturities (thousands of USD)
			31/12/2016 current	31/12/2015 previous	31/12/2014 previous	31/12/2016 current	31/12/2015 previous	31/12/2014 previous	31/12/2016 current	31/12/2015 previous	31/12/2014 previous	
Forwards	Long	Economic	20.73 USDMXN	17.34 USDMXN	14.74 USDMXN	56,125	14,000	1,000	\$ (2,122)	\$ (306)	\$ (117)	14,000
Options	Long	Economic	20.73 USDMXN	17.34 USDMXN	14.74 USDMXN	42,100	14,500	6,500	\$ 4,909	\$ (9)	\$ (19)	14,500
Forwards	Short	Economic	NA	1.09 EURUSD	NA	-	900	-	\$ -	\$ 0.1	\$ -	900

1. Foreign currency sensitivity analysis

At December 31, 2016, the Entity has contracted hedging in order to purchase US dollars for the next 12 months at the average exchange rate of \$19.21 for a total of \$98 million dollars, the valuation is based on an average exchange rate of \$20.75 pesos per US dollar over the next 12 months as of December 31, 2016. The initial price of currency derivatives is \$44.4 million Mexican pesos payable to the Entity.

Given the values and amounts of exchange rate hedges, management does not foresee a significant risk that could affect its results at the December 31, 2016 close or the obligations contracted under current operations that will expire during the next 12 months. The Entity does not match its net asset position with financial liabilities denominated in US dollars because it is not representative or material. The analysis shows only the effect on hedging for purchases of US dollars contracted and in effect at the December 31, 2016 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, 2016, 2015 and 2014, a total of 534, 220 and 212 derivative financial instrument operations (forwards and options) were carried out, respectively, for a total of 68.6, 41.5 and 82.5 million US dollars, respectively. The absolute value of the fair value of the derivative financial instruments entered into per quarter over the year does not comprise more than 5% of assets, liabilities or total consolidated capital, or otherwise 3% of the total consolidated sales for the last quarter. Therefore, the risk for the Entity of exchange rate fluctuations will have no negative effects, nor will it affect its capacity to carry out derivative financial instrument operations.

At December 31, 2016, 2015 and 2014, Alsea has contracted DFI's to purchase US dollars in the next twelve months for a total of approximately \$98, \$28 and \$7.5 million USD, at the average exchange rate of \$19.21, \$16.26 and \$13.80 pesos to the dollar, respectively.

At December 31, 2016, 2015 and 2014, the Entity had contracted the financial instruments shown in the table above.

f. **Interest rate risk management**

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

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

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

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

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

• **Interest rate swap contracts**

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

The following table shows a quantitative description of exposure to interest rate risk based on interest rate forwards and options agreements contracted by the Entity, in effect as of December 31, 2016, 2015 and 2014.

Type of derivative, security or contract	Position	Objective of the hedging	Underlying / reference variable			Notional amount / face value (USD)			Fair value (USD)			Amounts of expiration (thousands of USD)
			31/12/2016 current	31/12/2015 previous	31/12/2014 previous	31/12/2016 current	31/12/2015 previous	31/12/2014 previous	31/12/2016 current	31/12/2015 previous	31/12/2014 previous	
IRS Plain Vanilla	Long	Coverage	6.11% - TIIE 28 d	3.34% - TIIE 28 d	3.31% - TIIE 28 d	119,011	99,158	51,842	\$ 20,216	\$ 5,650	\$ (307)	99,158
IRS Plain Vanilla	Long	Economic	6.11% - TIIE 28 d	3.34% - TIIE 28 d	3.31% - TIIE 28 d	37,928	15,420	21,545	\$ (2,295)	\$ 32	\$ (13)	15,420
Knock Out IRS	Long	Economic	6.11% - TIIE 28 d	3.34% - TIIE 28 d	3.31% - TIIE 28 d	-	2,941	6,210	\$ -	\$ 11	\$ 43	2,941
Limited IRS	Long	Economic	6.11% - TIIE 28 d	3.34% - TIIE 28 d	3.31% - TIIE 28 d	10,453	2,941	6,210	\$ -	\$ 15	\$ 53	2,941
Capped IRS	Long	Economic	6.11% - TIIE 28 d	3.34% - TIIE 28 d	3.31% - TIIE 28 d	14,905	2,553	4,265	\$ 138.6	\$ 0.4	\$ 9	2,553
IRS Plain Vanilla	Long	Coverage	EURIBOR 1M	EURIBOR 1M	EURIBOR 1M	39,427	87,391	100,521	\$ (27)	\$ (549)	\$ 741	87,391

1. Analysis of interest rate sensitivity

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

- The first stress scenario considered by the Entity's management is a 200 bps increase in the 28-day TIIE reference rate while the rest of the variables remain constant. With the mix in the hedging portfolio of plain vanilla interest rate swaps and the swaptions contracted at the December 31, 2016 close, the increase in financial costs is of approximately \$127 million. The above effect arises because the barriers protecting the increase in the interest rates are exceeded, which leaves the Entity exposed to market rates.
- A 150 bps increase in the 28-day TIIE rate represents an increase in the financial cost of approximately \$95 million, which poses no risk to the Entity's liquidity nor gives rise to a negative effect on the business's operations or in assuming commitments for contracting interest rate derivative financial instruments.
- Lastly, the scenario with a 100 bps increase in the 28-day TIIE reference rate would have a positive effect on the financial cost of approximately \$64 million.

The above scenarios were performed on bank and market debt contracted in Mexican pesos with floating reference rate TIIE 28 days, which represents about 80% of the total debt contracted by the Bank. The bank debt denominated in euros is covered at a fixed rate by 70%, so an increase or decrease in rates would not represent a material or significant risk to the company, offsetting effectively in the starting price and value the underlying liabilities.

g. Credit risk management

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

The Entity has identified in its portfolio a credit risk among its derivative financial instruments designed as cash flow hedges, since are measured at fair value.

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

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

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

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

The methodologies and practices generally accepted in the market and which are applied by the Entity to quantify the credit risk related to a given financial agent are detailed below.

1. Credit Default Swap (CDS), the credit risk is quantified based on the quoted market price. The CDS is the additional premium that an investor is willing to pay to cover a credit position, meaning that the risk quantification is equal to this premium. This practice is utilized as long as quoted CDS are available on the market.
2. Issuance Credit Spread, if issuances are available for quotation on different financial markets, the credit risk can be quantified as the difference between the internal rate of return of the bonds and the risk-free rate.
3. Comparable items, if the risk cannot be quantified by using the above methodologies, the use of comparable items is generally accepted; i.e., the use of entities or bonds of the sector that the company wishes to analyze as a reference.

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

At the December 31, 2016, 2015 and 2014 closing, the Entity has incurred in 25 margin calls just in 2016, and holds 5.4 millions of US dollars securities pledged as a guarantee by a counterparty with which it may have carried out interest rate hedging operations.

At December 31, 2016, 2015 and 2014, 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, 2016, 2015 and 2014, that risk amounts to \$3,501,480, \$2,100,657 and \$2,088,393, respectively.

The credit risk generated by the management of the Entity's temporary investments reflects its current investment policy, which has the following objectives: I) enhance resource efficiency, and II) mitigate the credit risk. In order to fulfill these objectives, certain guidelines and maximum amounts were established for counterparties, instruments and periods within the Entity's policies.

All transactions performed in Mexican pesos and foreign currency are supported by an outline brokerage agreement duly executed by both parties with regulated institutions belonging to the Mexican Financial System, which have the guarantees required by the company and recognized credit ratings. The only instruments authorized for temporary investments are those issued by the federal government, corporate and banking institutions under the repurchase modality. As the Entity does not consider its credit risk to be material or significant, it does not perform a measurement for temporary investments

h. Liquidity risk management

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

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

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

As of December 31, 2016	Average effective interest rate	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Up to 5 years or more	Total
Long-term debt	6.76%	\$ 1,623,664	\$ 1,410,100	\$ 3,239,806	\$ 1,534,114	\$ 5,045,053	\$ 12,852,737
Debt instruments	7.16%	283,920	283,920	283,920	3,128,287	1,367,185	5,347,232
Financial leasing	4.00%	32,398	32,398	32,398	32,398	536,998	666,590
Derivatives		44,403	-	-	-	-	44,403
Suppliers		3,901,972	-	-	-	-	3,901,972
Accounts payable ⁽¹⁾		909,156	-	-	-	-	909,156
Total		\$ 6,795,513	\$ 1,726,418	\$ 3,556,124	\$ 4,694,799	\$ 6,949,236	\$ 23,722,090

(1) Starting 2016 the new payment term to suppliers is 90 days; the Entity signed financial factoring contracts with financial institutions that allows suppliers to collect from the financial institutions the invoices approved by the Entity before the payment terms matures and Alsea will pay the financial institution at maturity of the payment term. These transactions do not generate a cost to Alsea and are classified as accounts payable since are consider as a substitute creditor.

As of December 31, 2015	Average effective interest rate	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Up to 5 years or more	Total
Long-term debt	5.49%	\$ 1,000,986	\$ 1,048,079	\$ 717,767	\$ 2,669,308	\$ 1,471,296	\$ 6,907,436
Debt instruments	4.70%	321,818	331,341	2,772,813	222,647	4,481,332	8,129,951
Financial leasing	4.00%	32,789	32,789	32,789	32,789	565,089	696,245
Derivatives		97,806	-	-	-	-	97,806
Suppliers		3,013,091	-	-	-	-	3,013,091
Accounts payable		635,802	-	-	-	-	635,802
Total		\$ 5,102,292	\$ 1,412,209	\$ 3,523,369	\$ 2,924,744	\$ 6,517,717	\$ 19,480,331

As of December 31, 2014	Average effective interest rate	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Up to 5 years or more	Total
Long-term debt	4.97%	\$ 1,751,434	\$ 1,946,208	\$ 2,152,688	\$ 1,945,586	\$ 2,217,377	\$ 10,013,293
Debt instruments	4.05%	102,346	102,628	102,628	2,547,367	-	2,854,969
Financial leasing	4.00%	33,723	33,723	33,723	33,723	595,085	729,977
Derivatives		6,146	-	-	-	-	6,146
Suppliers		2,694,015	-	-	-	-	2,694,015
Accounts payable		601,854	-	-	-	-	601,854
Total		\$ 5,189,518	\$ 2,082,559	\$ 2,289,039	\$ 4,526,676	\$ 2,812,462	\$ 16,900,254

i. Fair value of financial instruments

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

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

Financial assets/liabilities	Fair value (1)(2) Figures in thousands of USD			Fair value hierarchy
	31.dic.16	31.dic.15	31.dic14	
1) Forwards and currency options agreements	\$ 2,787	\$ (315)	\$ (136)	Level 2
Valuation technique(s) and main input data	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	\$ 18,032	\$ 5,159	\$ 552	Level 2
Valuation technique(s) and main input data	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.			

During the period there were no transfers between level 1 and 3

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

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

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

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

In the case of derivative financial instruments, a standard contract approved by the International Swaps and Derivatives Association Inc. ("ISDA") is executed with each counterparty; the standard confirmation forms required for each transaction are also completed.

Likewise, bilateral guarantee agreements are executed with each counterparty to determine policies for the margins, collateral and credit lines to be granted.

This type of agreement is usually known as a "Credit Support Annex"; it establishes the credit limits that financial institutions grant to the company and which are applicable in the event of negative scenarios or fluctuations that affect the fair value of the open positions of derivative financial instruments. These agreements establish the margin calls to be implemented if credit line limits are exceeded.

Aside from the bilateral agreements attached to the ISDA outline agreement known as the Credit Support Annex (CSA), the Entity monthly monitors the fair value of payable or receivable amounts. If the result is positive for the Entity and is considered relevant due to its amount, a CDS can be contracted to reduce the risk of counterparty noncompliance.

The Entity has the policy of monitoring the number of operations contracted with each of these institutions so as to avoid margin calls and mitigate the counterparty credit risk.

At December 31, 2016, 2015 and 2014, the Entity has not received any margin calls and does not have any securities given as a guarantee with counterparties as interest rate hedges. Furthermore, it did not record any instances of noncompliance with the contracts executed with different financial institutions for operations involving interest rate hedges.

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

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

	12/31/2016		12/31/2015		12/31/2014	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities						
Financial liabilities maintained at amortized cost:						
Suppliers	\$ 3,901,972	\$ 3,901,972	\$ 3,013,091	\$ 3,013,091	\$ 2,694,015	\$ 2,694,015
Accounts payable and accrued liabilities	909,156	909,156	635,802	635,802	601,854	601,854
Bank loans	1,107,238	1,115,556	734,824	766,303	1,377,157	1,403,930
Current maturities of financial lease liabilities	6,799	6,799	7,190	7,190	7,878	7,878
Long-term bank loans	9,743,806	9,743,806	5,018,722	5,018,722	7,370,666	7,370,666
Non-current financial lease liabilities	300,835	300,835	307,140	307,140	314,342	314,342
Debt instruments	3,988,845	4,037,222	6,479,795	6,539,804	2,491,356	2,498,969
Total	\$ 19,958,651	\$ 20,015,346	\$ 16,196,564	\$ 16,288,052	\$ 14,857,268	\$ 14,891,654

Financial liabilities 2016	Level 1
Financial liabilities maintained at amortized cost:	
Bank loans	\$ 1,107,238
Current maturities of financial lease liabilities	6,799
Long-term bank loans	9,743,806
Non-current financial lease liabilities	300,835
Debt instruments	3,988,845
Total	\$ 15,147,523

Financial liabilities 2015	Level 1
Financial liabilities maintained at amortized cost:	
Bank loans	\$ 734,824
Current maturities of financial lease liabilities	7,190
Long-term bank loans	5,018,722
Non-current financial lease liabilities	307,140
Debt instruments	6,479,795
Total	\$ 12,547,671

Financial liabilities 2014	Level 1
Financial liabilities maintained at amortized cost:	
Bank loans	\$ 1,377,157
Current maturities of financial lease liabilities	7,878
Long-term bank loans	7,370,666
Non-current financial lease liabilities	314,342
Debt instruments	2,491,356
Total	\$ 11,561,399

Valuation

a. Description of valuation techniques, policies and frequency:

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

b. Liquidity in derivative financial operations:

1. The resources used to address financial instrument requirements will derive from the resources generated by the issuer.

2. External sources of liquidity: No external sources of financing will be used to address requirements pertaining to derivative financial instruments.

23. Stockholders' equity

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

a. Capital stock structure

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

	Number of shares	Capital stock (thousands of pesos)	Premium on issuance of share
Figures at January 1, 2014	687,759,054	\$ 403,339	\$ 2,037,390
Repurchase of shares	(956,201)	(478)	-
Placement of shares (note 1c)	150,819,671	75,410	6,576,197
Figures at December 31, 2014	837,622,524	478,271	8,613,587
Placement of shares	(136,080)	(68)	-
	Number of shares	Capital stock (thousands of pesos)	Premium on issuance of share
Figures at December 31, 2015	837,486,444	478,203	8,613,587
Placement of shares	(3,207,245)	(1,604)	-
Figures at December 31, 2016	834,279,199	\$ 476,599	\$ 8,613,587

As discussed in Note 19, the Entity has the put option of acquiring the non-controlling interest of Grupo Zena, this effect resulted in the application of a charge of \$2,673,053 to net worth.

In April 2016, Alsea declared a dividend payment of \$645,706 with a charge to the after-tax earnings account, which is to be paid against net earnings at the \$0.77 (zero pesos fifty cents) per share. It authorizes the Treasury society make payment on May 13, 2016 for an amount of \$644,771.

In April 2015, Alsea declared a dividend payment of \$419,289 with a charge to the after-tax earnings account, which is to be paid against net earnings at the \$0.50 (zero pesos fifty cents) per share. It authorizes the Treasury society make payment on May 29, 2015 for an amount of \$419,173.

In June 2014, Alsea issued 131,147,540 shares with an overallotment of 19,672,131, which was exercised with an asking price of \$45.75 (forty-five Mexican pesos and 75/100 centavos) per share. The issuance was recorded net of placement expenses (see Note 1c).

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.

The National Banking and Securities Commission has established a mechanism that allows the Entity to acquire its own shares in the market, for which purpose a reserve for repurchase of shares must be created and charged to retained earnings, which Alsea has created as of December 31, 2015.

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

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

b. Stockholders' equity restrictions

- I. 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, 2016, 2015 and 2014, the legal reserve amounted to \$100,736, which amount does not reach the required 20%.
- II. Dividends paid from retained earnings are not subject to ISR if paid from the after-tax earnings account (CUFIN), and 30% must be paid on the excess, i.e., the result arrived at by multiplying the dividend paid by a factor of 1.0408. The tax accrued on the dividend payment not arising from the CUFIN must be paid by the Entity and may be credited against corporate IT in the following two years.

24. Non-controlling interest

a. Following is a detail of the non-controlling interest.

	Amount
Balances at January 1, 2014	\$ 239,504
Equity in results for the year ended December 31, 2014	(42,572)
Other movements in capital	1,345
Contributions of Capital in Estrella Andina, S.A.S. (1)	27,904
Fair value of the non-controlling interest in Grupo Zena (note 15) (3)	<u>607,032</u>
Ending balance at December 31, 2014	833,213
Equity in results for the year ended December 31, 2015	51,536
Other movements in capital	10,156
Capital contributions in subsidiaries	31,380
Acquisition of the non-controlling interest of GASA	<u>(26,365)</u>
Ending balance at December 31, 2015	899,920
Equity in results for the year ended December 31, 2016	130,019
Equity in results for the year ended December 31, 2016	(45,178)
Other movements in capital	<u>28,687</u>
Ending balance at December 31, 2016	<u>\$ 1,013,448</u>

(1) In 2014, the Entity executed an agreement with Starbucks Coffee International, Inc. (SCI) to develop and operate Starbucks® in Colombia in conjunction with Grupo Nutresa. The strategic partnership of Alsea and Grupo Nutresa to develop the Brand in Colombia was implemented through a joint venture in which Alsea holds 70% equity, while Nutresa holds the remaining 30%.

(2) The balance includes the restatement adjustment of \$101,520 (see Notes 2a).

(3) On January 20, 2016, Food Project, SL, decreed a capital repayment of 8,000 thousand euros, granted in proportion to the value of each of the social shares in which the share capital of the entity is divided, Resulting in a decrease in non-controlling interest in the amount of \$45,178.

b. Acquisition of the non-controlling interest of Grupo Amigos de San Ángel-

In 2015, the Entity acquired the 10.23% that it did not hold in Grupo Amigos de San Ángel, a subsidiary of Alsea that operates in the different Italiani's stores in Mexico.

For consolidation purposes, the transaction did not constitute a change in control over Grupo Amigos de San Ángel, 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 Grupo Amigos de San Ángel by Alsea upon acquisition of the non-controlling interest (from 89.77% to 100%) qualified as an equity transaction.

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

The accounting entry gave rise to a decrease in the non-controlling interest of \$26,365.

c. Acquisition of the non-controlling interest of Starbucks Coffee Argentina-

In 2013, the Entity acquired from Starbucks Coffee 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 an 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.

d. 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.

e. Following is the detail of the Non-Controlling interest of the subsidiaries of the Entity:

Subsidiary	Country	Percentages of the non-controlling interest			Income (loss) attributable to the non-controlling interest			Accumulated non-controlling interest		
		31/12/2016	31/12/2015	31/12/2014	31/12/2016	31/12/2015	31/12/2014	31/12/2016	31/12/2015	31/12/2014
Food Service Project, S.L (Grupo Zena)	Spain	28,24%	28.24%	28.24%	\$ 163,838	\$ 86,131	\$ 25,132	\$ 866,843	\$ 1,187,814	\$ 708,552
Operadora de Franquicias Alsea, S.A. de C.V.	Mexico	20.00%	20.00%	20.00%	(30,924)	(28,676)	(59,326)	86,042	116,966	225,163
Estrella Andina, S.A.S.	Colombia	30.00%	30.00%	30.00%	(2,705)	(5,480)	(6,749)	40,193	35,157	27,904

25. Earnings per share

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

Diluted earnings per share is calculated by dividing the net profit attributable to controlling interest holders of ordinary capital (after adjusting for interest on the convertible preferential shares, if any) by the average weighted ordinary shares outstanding during the year plus average weighted ordinary shares issued when converting all potentially ordinary diluted shares to ordinary shares. For the years ended December 31, 2016, 2015 and 2014, 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:

	2016	2015	2014
Net profit (in thousands of Mexican pesos):			
Attributable to shareholders	\$ 996,471	\$ 981,215	\$ 666,666
Shares (in thousands of shares):			
Weighted average of shares outstanding	836,728	837,486	837,623
Basic earnings per share	\$ 1.19	\$ 1.17	\$ 0.85
Basic earnings per share continuing operations	\$ 1.19	\$ 1.17	\$ 0.87

26. Revenues

	2016	2015	2014
Revenues from the sale of goods	\$ 36,682,433	\$ 31,471,313	\$ 22,178,483
Services	652,106	487,346	378,654
Royalties	367,328	329,717	230,231
Total	\$ 37,701,867	\$ 32,288,376	\$ 22,787,368

27. Cost of sales

The costs and expenses included in other operating costs and expenses in the consolidated statements of income are as follows:

	2016	2015	2014
Food and beverage of costs	\$ 11,406,404	\$ 9,769,021	\$ 6,866,889
Royalties of costs	146,036	133,471	130,568
Other costs	227,190	246,784	274,817
Total	\$ 11,779,630	\$ 10,149,276	\$ 7,272,274

28. Other operating costs and expenses

	2016	2015	2014
Employee benefits	\$ 9,506,774	\$ 8,177,096	\$ 5,358,546
Advertising	1,449,137	1,211,830	809,172
Services	1,705,631	1,637,801	1,463,794
Royalties	1,183,173	990,348	739,479
Pre-operative	122,959	109,802	118,915
Other	3,414,422	2,803,744	2,215,767
Total	\$ 17,382,096	\$ 14,930,621	\$ 10,705,673

29. Other expenses

In 2016, 2015 and 2014, this caption is comprised as follows:

	2016	2015	2014
Legal expenses	\$ 53,487	\$ 25,019	\$ 23,118
Loss on fixed asset disposals, net	3,885	40,227	189,306
PTU on tax base	23,347	6,371	20,371
Inflation and interest on tax refund	26,517	(32,649)	(10,035)
Other income, net	3,415	16,698	(21,029)
Total	\$ 110,651	\$ 55,666	\$ 201,731

30. Discontinued operations

a. Disposal of operations related to the Pei Wei Asian Dinner Brand

At the end of 2014, the Entity's management decided to discontinue the operations of the Pei Wei Asian Dinner Brand in Mexico: The stores of such Brand will end its operation at the beginning of 2016, consequently such operations are presented as discontinued operations in the consolidated financial statements.

b. Analysis of the results for the year from discontinued operations

The comparative results of discontinued operations included in the consolidated statements of income are detailed below.

	2014	
Results for the year from discontinued operations		
Income	\$	15,676
Costs		5,164
Expenses		29,133
		<hr/>
Loss for the year of the discontinued operations	\$	<u>(18,621)</u>

Cash flows are presented in the consolidated statements of cash flows.

31. 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, 2016, 2015 and 2014 was of approximately \$231,750, \$121,800 and \$98,400, 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.

32. Financial information by segments

The Entity is organized into four large operating divisions comprised of sales of food and beverages in Mexico and South America (LATAM – Argentina, Chile, Colombia and Brazil) and distribution services, all headed by the same management.

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

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

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

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

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

Restaurant – cafeteria - (VIPS): Is a familiar-type segment and its main characteristic is the hospitality, and be close to the client. These Restaurants have a wide variety of menus.

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

The distribution and Production segment is defined as follows:

Distribuidora e Importadora Alsea, S.A. de C.V. (DIA) specializes in domestic purchase, importation, transporting, storage and distribution of frozen, refrigerated and dry food products to supply all Domino's Pizza, Burger King, Starbucks, Chili's 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, 2016, 2015 and 2014 is as follows:
(figures in millions of pesos).

Figures in millions of pesos as of December 31, division:

	Food and beverages - Mexican segment			Food and beverages - LATAM Segment			Food and beverages - Spain Division			Distribution and production segment			Eliminations			Consolidated		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Revenues from third parties	\$ 20,552	\$ 18,629	\$ 15,533	\$ 8,124	\$ 6,718	\$ 4,621	\$7,591	\$5,674	\$1,468	\$1,398	\$1,235	\$1,132	\$ 37	\$ 32	\$ 34	\$37,702	\$32,288	\$22,788
Between segments	76	43	58	-	-	-	-	-	-	5,859	5,139	3,932	(5,935)	(5,182)	(3,990)	-	-	-
Revenues	20,628	18,672	15,591	8,124	6,718	4,621	7,591	5,674	1,468	7,257	6,374	5,064	(5,898)	(5,150)	(3,956)	37,702	32,288	22,788
Costs	7,010	6,244	5,078	2,566	2,132	1,563	2,076	1,581	410	6,029	5,344	4,218	(5,901)	(5,152)	(3,997)	11,780	10,149	7,272
Other operating costs and expenses	10,421	9,683	8,397	4,972	4,103	2,790	4,452	3,358	854	777	668	533	146	24	139	20,768	17,836	12,713
Depreciation and amortization	1,544	1,283	1,007	331	237	174	300	239	55	75	72	69	139	117	28	2,389	1,948	1,333
Interest paid	192	300	304	199	139	104	88	94	30	2	4	14	400	174	75	881	711	527
Interest earned	(77)	(51)	(68)	(20)	(25)	(28)	-	-	-	(21)	(7)	(5)	80	53	68	(38)	(30)	(33)
Other financial expenses	8	7	5	(2)	16	2	-	-	-	71	66	12	257	90	(19)	334	179	-
	1,530	1,206	868	78	116	16	675	402	119	324	227	223	(1,019)	(456)	(250)	1,588	1,495	976
Equity in results of associated companies	-	-	-	-	-	-	-	-	-	-	-	-	68	28	32	68	28	32
Income taxes	233	246	186	35	(28)	55	94	97	29	63	50	17	105	125	78	530	490	365
Results of segments	1,297	960	682	43	144	(39)	581	305	90	261	177	206	(1,056)	(553)	(296)	1,126	1,033	643
Discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	52	(19)	-	-	(19)
Non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	130	-	(43)	130	52	(43)
Controlling interest	\$ 1,297	\$ 960	\$ 682	\$ 43	\$ 144	\$ (39)	\$ 581	\$ 305	\$ 90	\$ 261	\$ 177	\$ 206	\$ (1,186)	\$ (605)	\$ (272)	\$ 996	\$ 981	\$ 667
Assets:	\$ 18,590	\$ 18,205	\$ 12,440	\$ 3,772	\$ 2,605	\$ 2,524	4,441	3,437	3,338	2,729	2,303	2,188	3,082	1,940	7,072	32,614	28,490	27,562
Investment in performing assets																		
(Investment in associated companies)	-	-	-	-	-	-	-	-	-	-	-	-	1,036	923	830	1,036	923	830
(Investment in fixed assets and Intangible assets)	2,312	2,072	1,644	577	417	493	787	476	198	280	29	76	593	446	69	4,549	3,440	2,480
Total assets	\$ 20,902	\$ 20,277	\$ 14,084	\$ 4,349	\$ 3,022	\$ 3,017	\$5,228	\$3,913	\$3,536	\$3,009	\$2,332	\$2,264	\$4,711	\$3,309	\$7,971	\$38,199	\$32,853	\$30,872
Total liabilities	\$ 6,885	\$ 7,270	\$ 8,940	\$ 3,080	\$ 2,566	\$ 2,535	\$4,063	\$3,805	\$3,694	\$1,898	\$1,477	\$1,461	\$12,145	\$7,887	\$4,650	\$28,071	\$23,005	\$21,280

33. Foreign currency position

Assets and liabilities expressed in US dollars, shown in the reporting currency at December 31, 2016, 2015 and 2014, are as follows:

	Thousands of dollars 2016	Thousands of dollars 2015	Thousands of dollars 2014
Assets	\$ 1,776,641	\$ 1,300,457	\$ 1,371,033
Liabilities	(5,891,935)	(4,379,546)	(4,273,402)
Net monetary liability position	\$ (4,115,294)	\$ (3,079,089)	\$ (2,902,369)

The exchange rate to the US dollar at December 31, 2016, 2015 and 2014 was \$20.66, \$17.25 and \$14.74, respectively. At March 31, 2016, date of issuance of the consolidated financial statements, the exchange rate was \$18.86 to the US dollar.

The exchange rates used in the different conversions to the reporting currency at December 31, 2016, 2015 and 2014 and at the date of issuance of these consolidated financial statements are shown below:

Country of origin	Currency	Closing exchange rate	Issuance March 28, 2017
2016			
Argentina	Argentinian peso (ARP)	1.3012	1.2154
Chile	Chilean peso (CLP)	0.0308	0.0283
Colombia	Colombian peso (COP)	0.0067	0.0064
Spain	Euro (EUR)	21.7323	20.4747
Country of origin	Currency	Closing exchange rate	Issue March 31, 2016
2015			
Argentina	Argentinian peso (ARP)	1.3408	1.1862
Chile	Chilean peso (CLP)	0.0244	0.0252
Colombia	Colombian peso (COP)	0.0054	0.0057
Spain	Euro (EUR)	18.8344	19.5332

Country of origin	Currency	Closing exchange rate	Issue February 29, 2015
2014			
Argentina	Argentinian peso (ARP)	1.7235	1.7108
Chile	Chilean peso (CLP)	0.0240	0.0241
Colombia	Colombian peso (COP)	0.0062	0.0059
Spain	Euro (EUR)	17.6926	16.8876

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
Food Service Project S.L.	Spain	EUR	EUR	MXP

34. Commitments and contingent liabilities

Commitments:

- a. The Entity leases locales to house its stores and distribution centers, as well as certain equipment further to the lease agreements entered into for defined periods (see Note 12).
- b. The Entity has acquired several commitments with respect to the arrangements established in the agreements for purchase of the Brands.
- c. In the regular course of operations, the Entity acquires commitments derived from supply agreements, which in some cases establish contractual penalties in the event of breach of such agreements.
- d. In the signed contracts with third parties, the Entity is entitled to comply with certain mandatory clauses; some of the main mandatory clauses are related to capital investments and opening of Restaurants.

Contingent liabilities:

In August 2012, Italcafé received an order for an on-site official review by the tax authorities. Such visit concluded in August 2014 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 2015, 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.

On November 3, 2015, the Entity filed a Motion for Reconsideration with the Tax Inspection Office of the Federal District against the tax liability determined by the Finance Department of the Federal District. On February 13, 2016, the Tax Inspection Office issued a request for additional information, which was provided on February 20 of that year. This Motion for Reconsideration is currently being studied by the Tax Inspection Office of the Federal District. In the event of an unfavorable ruling, the Entity will file a Ruling for Annulment. The attorneys of the vendor and Alsea consider that they have a good chance of success. During the 2 to 3 years that this legal action will take, the tax liability will not be considered as definitive.

35. Financial statement authorization

The consolidated financial statements were authorized for issuance on March 28, 2017 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.

* * * * *



Financial Statements

Fundación Alsea, A. C.

Financial Statements for the Years Ended December 31, 2016 and 2015, and Independent Auditors' Report Dated March 17, 2017

Fundación Alsea, A. C.

Independent Auditors' Report and Financial Statements for 2016 and 2015

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Independent Auditors' Report to the Board of Directors of Fundación Alsea, A. C.

Opinion

We have audited the accompanying financial statements of Fundación Alsea, A. C., (the "Foundation") which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Fundación Alsea, AC, as of December 31, 2016 and 2015, and its financial performance and its cash flows, for the years then ended in accordance with Mexican Financial Reporting Standards (NIF).

Bases of Opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report. We are independent of the Foundation in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for professional Accountants (IESBA Code)* and with the Ethics Code issued by the Mexican Institute of Public Accountants (*IMCP Code*), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and IMCP Code.

Other matter

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

Responsibilities of Management and Those Responsible for Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the accompanying financial statements in accordance with NIF and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance that the about whether financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have met the applicable ethics requirements in relation to independence and have communicated to them all of the relationships and other issues that can reasonably be expected to affect our Independence and, where appropriate, the corresponding safeguards.

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



C. P. C. Francisco Torres Uruchurtu

March 17, 2017

Fundación Asea, A. C.

Statements of Financial Position

As of December 31, 2016 and 2015

(In thousands of Mexican pesos)

Assets	2016	2015
Current assets:		
Cash and cash equivalents	\$ 58,621	\$ 38,503
Accounts receivable	1,637	10,765
Recoverable taxes	49	49
Total current assets	60,307	60,307
Other assets, net of accumulated amortization of \$81 and \$54	107	188
Total	\$ 60,414	\$ 49,505
Liabilities and patrimony		
Current liabilities:		
Trade accounts payable	\$ 16	\$ 191
Taxes and accrued expenses	1,049	30
Total liabilities	1,065	221
Patrimony	59,349	49,284
Total	\$ 60,414	\$ 49,505

See accompanying notes to financial statements.

Fundación Alsea, A. C.

Statements of Activities

For the years ended December 31, 2016 and 2015
(In thousands of Mexican pesos)

	2016	2015
Revenues:		
Cash donations income	\$ 44,407	\$ 42,450
Interest income	1,652	627
	<u>46,059</u>	<u>43,077</u>
Expenses:		
General expenses	34,646	25,066
Value added tax	473	183
Administrative expenses	875	88
	<u>35,994</u>	<u>25,337</u>
Net changes in patrimony	<u>10,065</u>	<u>17,740</u>
Patrimony at beginning of year	<u>49,284</u>	<u>31,544</u>
Patrimony at end of year	<u>\$ 59,349</u>	<u>\$ 49,284</u>

See accompanying notes to financial statements.

Fundación Alsea, A. C.

Statements of Cash Flows

For the years ended December 31, 2016 and 2015
(In thousands of Mexican pesos)

	2016	2015
Operating activities:		
Net changes in patrimony	\$ 10,065	\$ 17,740
Items related to investing activities:		
Amortization	81	54
(Increase) decrease in:		
Accounts receivable	9,128	(10,299)
Prepaid expenses	-	75
Increase (decrease) in:		
Trade accounts payable	(175)	89
Taxes and accrued expenses	1,019	(192)
Net cash flows from operating activities	<u>20,118</u>	<u>7,467</u>
Investing activities – Other assets	<u>-</u>	<u>(130)</u>
Net increase in cash and cash equivalents	20,118	7,337
Cash and cash equivalents at beginning of year	<u>38,503</u>	<u>31,166</u>
Cash and cash equivalents at end of year	<u>\$ 58,621</u>	<u>\$ 38,503</u>

See accompanying notes to financial statements.

Fundación Alsea, A. C.

Notes to Financial Statements

For the years ended December 31, 2016 and 2015

(In thousands of Mexican pesos)

1. Activities

Fundación Alsea, A. C. (the "Foundation"), whose main objective is to contribute to food security of vulnerable communities and to promote human development by supporting initiatives for education.

To accomplish its goals, the Foundation receives donations from individuals and entities, with the authorization of the Mexican Secretariat of Finance and Public Credit (Secretaría de Hacienda y Crédito Público - "SHCP"). Accordingly, donations are tax deductible to the donor; the list of entities eligible to receive donations was published in the Official Gazette on January 12, March 9, May and July 15, 2016 and was granted by Official Letter No. 325-SAT-IV-E-76214 and 600-04-02 -2013-16480.

The Foundation does not have any employees, and therefore it is not subject to labor obligations. All personnel services are provided by a related party.

2. Basis of presentation

a. Explanation for translation into English - The accompanying financial statements has been translated from Spanish into English for use outside of Mexico. These financial statements are presented on the basis of Mexican Financial Reporting Standards ("MFRS"), which are comprised of accounting standards that are individually referred to as Normas de Información Financiera, or "NIFs"). Certain accounting practices applied by the Foundation that conform with MFRS may not conform with accounting principles generally accepted in the country of use.

b. Monetary unit of the financial statements - The financial statements and notes as of December 31, 2016 and 2015 and for the years then ended include balances and transactions denominated in Mexican pesos of different purchasing power. Cumulative inflation rates over the three-year periods ended December 31, 2016 and 2015 were 10.52% and 12.08%, in each period. Accordingly, the economic environment is not inflationary in either such period and no inflationary effects were recognized in the accompanying financial statements. Inflation rates for the years ended December 31, 2016 and 2015 were 3.36% and 2.13%, respectively.

c. Classification of costs and expenses - Costs and expenses are presented according to their nature because the administration considers that it is more useful to the users of the financial information.

d. Net change in patrimony - Net change in patrimony is the change in patrimony during an accounting period for a not-for-profit foundation arising from its revenues, costs and expenses.

e. Patrimony - Patrimony is classified according to the restrictions that the donors established on the assets donated.

f. Donations - Donations are revenues that increase the recorded patrimony when contributions are received in cash, goods or services are canceled.

g. Financial Statements of Entities for Non-Profit Purposes - The Foundation has adopted the provisions of Mexican Financial Reporting Standards (NIF) A-2 "Basic Postulates", B-16 "Financial Statements of Nonprofit Purposes" and E-2 "Income and contributions received by entities with non-profit purposes", in force and mandatory application

3. Summary of significant accounting policies

The accompanying financial statements have been prepared in conformity with MFRS, which require that management make certain estimates and use certain assumptions that affect the amounts reported in the financial statements and their related disclosures; however, actual results may differ from such estimates. The Foundation's management, upon applying professional judgment, considers that estimates made and assumptions used were adequate under the circumstances. The significant accounting policies of the Foundation are as follows:

1. Recognition of the effects of inflation - Beginning on January 1, 2008, the Foundation discontinued recognition of the effects of inflation in its financial statements; However, non-monetary assets and liabilities and patrimony include the restatement effects recognized through December 31, 2007.

2. Cash and cash equivalents - Cash and cash equivalents consist mainly of bank deposits in checking accounts and short-term investments that a) are highly liquid and easily convertible into cash, b) mature within three months from their acquisition date and c) are subject to low risk of material changes in value. Cash is stated at nominal value and cash equivalents are valued at fair value. Cash equivalents are comprised mainly of money market funds.

- 3. **Provisions** - Provisions are recognized for current obligations that arise from a past event, that are probable to result in the use of economic resources, and that can be reasonably estimated.
- 4. **Income from cash donations** - Income from donations received are recognized at the time the cash is received.

4. Cash and cash equivalents

	2016	2015
Cash	\$ 2,231	\$ 7
Cash equivalents – Money market funds	<u>56,390</u>	<u>38,496</u>
	<u>\$ 58,621</u>	<u>\$ 38,503</u>

5. Patrimony

As of December 31 2016 and 2015, the patrimony of the Foundation is comprised of the net changes in patrimony derived from its activities.

6. Income taxes

Being a non-profit association in accordance with the provisions of the Law on income tax ("ISR"), the Foundation is not subject to income tax, provided that it complies with the requirements regarding distributable surplus, omissions income, purchases not made and improperly registered and expenses that may be incurred and are not deductible, as provided in the law.

7. Authorization to issue the financial statements

On March 17, 2017, the issuance of the accompanying financial statements was authorized by C. P. Alejandro Villarruel Morales, Corporate Controller Foundation; consequently, they do not reflect events occurred after that date. These financial statements are subject to the approval of the Foundation's, where they may be modified, based on provisions set forth in the Mexican General Corporate Law.

* * * * *

GRI Index

General Standard Disclosures

Indicator	Description	Page / Direct answer	Omission
Strategy and analysis			
G4-1	Provide a statement from the most senior decisionmaker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.	8-13	
G4-2	Provide a description of key impacts, risks, and opportunities.	8-13	
Organizational profile			
G4-3	Report the name of the organization.	Inside back cover	
G4-4	Report the primary Brands, products, and services.	18-20	
G4-5	Report the location of the organization's headquarters.	Inside back cover	
G4-6	Report the number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.	5	
G4-7	Report the nature of ownership and legal form.	Inside back cover	
G4-8	Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).	5	
G4-9	Report the scale of the organization.	4, 5, 7, 19-22, 25	
G4-10	Report the total number of employees by employment contract and gender.	25	
G4-11	Report the percentage of total employees covered by collective bargaining agreements.	Information not available.	
G4-12	Describe the organization's supply chain.	45-47	
G4-13	Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain.	8-13	
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization.	Does not apply.	

Indicator	Description	Page / Direct answer	Omission
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	48-63	
G4-16	List memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization is involved.	77	
Identified material aspects and boundaries			
G4-17	<p>a. List all entities included in the organization's consolidated financial statements or equivalent documents.</p> <p>b. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report.</p>	92-97, 106-108	
G4-18	<p>a. Explain the process for defining the report content and the Aspect Boundaries.</p> <p>b. Explain how the organization has implemented the Reporting Principles for Defining Report Content.</p>	80-81	
G4-19	List all the material Aspects identified in the process for defining report content.	80-81	
G4-20	For each material Aspect, report the Aspect Boundary within the organization.	80-81	
G4-21	For each material Aspect, report the Aspect Boundary outside the organization.	80-81	
G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements.	78-79	
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	78-79	
Stakeholder engagement			
G4-24	List of stakeholder groups engaged by the organization.	49	
G4-25	Basis for identification and selection of stakeholders with whom to engage.	49	
G4-26	Organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	49	
G4-27	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. Report the stakeholder groups that raised each of the key topics and concerns.	80-81	

Indicator	Description	Page / Direct answer	Omission
Report profile			
G4-28	Reporting period (such as fiscal or calendar year) for information provided.	79	
G4-29	Date of most recent previous report (if any).	79	
G4-30	Reporting cycle (such as annual, biennial).	79	
G4-31	Contact point for questions regarding the report or its contents.	Inside back cover	
G4-32	a. 'In accordance' option the organization has chosen.		
	b. GRI Content Index for the chosen option (see tables below).	79	
	c. Reference to the External Assurance Report, if the report has been externally assured. GRI recommends the use of external assurance but it is not a requirement to be 'in accordance' with the Guidelines.		
G4-33	Organization's policy and current practice with regard to seeking external assurance for the report.	The report is not externally audited.	
Governance			
G4-34	Governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental, and social impacts.	67-77	
G4-35	Process for delegating authority for economic, environmental and social topics.	49, 67-77	
G4-36	Whether the organization has appointed an executive level position or positions with responsibility for economic, environmental, and social topics, and whether post holders report directly to the highest governance body.	49	
G4-37	"Processes for consultation between stakeholders and the highest governance body on economic,	49	
G4-38	environmental and social topics."	67-77	
G4-39	Composition of the highest governance body and its committees.	67-77	
G4-40	Whether the Chair of the highest governance body is also an executive officer (and, if so, his or her function within the organization's management and the reasons for this arrangement).	67-77	
G4-41	Report the nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members.	67-77	
G4-42	Processes for the highest governance body to ensure conflicts of interest are avoided and managed. Whether conflicts of interest are disclosed to stakeholders.	67-77	

Indicator	Description	Page / Direct answer	Omission
G4-43	Highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental, and social impacts.	67-77	
G4-44	a. Processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental, and social topics. Report whether such evaluation is independent or not, and its frequency. Report whether such evaluation is a selfassessment.	67-77	
	b. Actions taken in response to evaluation of the highest governance body's performance with respect to governance of economic, environmental, and social topics, including, as a minimum, changes in membership and organizational practice.		
G4-45	a. Highest governance body's role in the identification and management of economic, environmental, and social impacts, risks, and opportunities. Include the highest governance body's role in the implementation of due diligence processes.	67-77	
	b. Whether stakeholder consultation is used to support the highest governance body's identification and management of economic, environmental, and social impacts, risks, and opportunities.		
G4-46	Highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental, and social topics.	67-77	
G4-47	Frequency of the highest governance body's review of economic, environmental, and social impacts, risks, and opportunities.	49	
G4-48	Highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material Aspects are covered.	80-81	
G4-49	Process for communicating critical concerns to the highest governance body.	49	
G4-50	Concerns that were communicated to the highest governance body.	48-63	
G4-51	a. Remuneration policies for the highest governance body and senior executives.	67-77	
	b. How performance criteria in the remuneration policy relate to the highest governance body's and senior executives' economic, environmental, and social objectives		
G4-52	Process for determining remuneration. Report whether remuneration consultants are involved in determining remuneration and whether they are independent of management. Report any other relationships which the remuneration consultants have with the organization.	67-77	

Indicator	Description	Page / Direct answer	Omission
G4-53	How stakeholders' views are sought and taken into account regarding remuneration.	67-77	
Ethics and integrity			
G4-56	Organization's values, principles, standards, and norms of behavior such as codes of conduct and codes of ethics.	5-6, 65-67	
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines.	65-67	
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.	65-67	

Specific Standard Disclosures

Indicator	Description	Page / Direct answer	Omission
ECONOMIC			
Economic performance			
G4-EC1	Report the direct economic value generated and distributed.	7	
Indirect economic impacts			
G4-EC7	Extent of development of significant infrastructure investments and services supported.	8-13	
G4-EC8	Examples of the significant identified positive and negative indirect economic impacts the organization has.	8-13	
ENVIRONMENTAL			
Energy			
G4-EN3	Energy consumption.	57	
G4-EN5	Energy intensity.	57	
G4-EN6	Reduction of energy consumption.	57	
Emissions			
G4-EN15	Direct greenhouse gas (GHG) emissions (scope 1).	58	
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (scope 2).	58	
G4-EN18	Greenhouse gas (GHG) emissions intensity.	58	
G4-EN19	Reduction of GHG emissions.	58	
Products and services			
G4-EN27	Mitigation of environmental impacts of products and services.	59	
G4-EN28	Percentage of products sold and their packaging materials that are reclaimed by category.	59	
Overall			
G4-EN31	Total environmental protection expenditures and investments by type.	57-59	
SOCIAL. LABOR PRACTICES AND DECENT WORK			
Employment			
G4-LA1	Total number and rate of new employee hires and employee turnover during the reporting period, by age group, gender, and region.	27	
G4-LA2	Benefits which are standard for full-time employees of the organization but are not provided to temporary or part-time employees, by significant locations of operation.	50-52	
Occupational health and safety			
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advice on occupational health and safety programs.	52	

Indicator	Description	Page / Direct answer	Omission
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.	52	
Training and education			
G4-LA9	Average hours of training per year per employee by gender, and by employee category.	28-29	
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	50-52	
Supplier assessment for labor practices			
G4-LA14	Suppliers that were screened using labor practices criteria.	45-47	
G4-LA15	Actual and potential negative impacts for labor practices in the supply chain.	45-47	
SOCIAL. HUMAN RIGHTS			
Child labor			
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.	45-47	
Forced or compulsory labor			
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.	45-47	
Supplier human rights assessment			
G4-HR10	New suppliers that were screened using human rights criteria.	45-47	
G4-HR11	Actual and potential negative human rights impacts in the supply chain and actions taken.	45-47	
SOCIAL. SOCIETY			
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G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	60-63	
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G4-SO3	Total number and percentage of operations assessed for risks related to corruption.	45-47	
G4-SO4	Total number and percentage of governance body members that the organization's anticorruption policies and procedures have been communicated to, broken down by region.	66-67	
G4-SO5	Total number and nature of confirmed incidents of corruption.	66-67	

Indicator	Description	Page / Direct answer	Omission
G4-SO7	Total number of legal actions pending or completed during the reporting period regarding anti-competitive behavior and violations of anti-trust and monopoly legislation in which the organization has been identified as a participant.	56	
Supplier assessment for impacts on society			
G4-SO9	New suppliers that were screened using criteria for impacts on society.	45-47	
G4-SO10	Actual and potential negative impacts on society in the supply chain and actions taken.	45-47	
SOCIAL. PRODUCT RESPONSIBILITY			
Guest health and safety			
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G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services within the reporting period.	54-56	
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G4-PR3	Product and service information and labeling.		Components origin, security instructions , product elimination and enviromental or social impact.
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling.	53	
Marketing communications			
G4-PR6	Sale of banned or disputed products.	53-56	
G4-PR7	Incidents of non-compliance concerning marketing communications.	53-56	
G4-PR8	Substantiated complaints regarding breaches of customer privacy.		To date, there has not been a complain or identity robbery or personal informartion leak of our clients data base.
Compliance			
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	53-56	

As part of our commitment to ensuring a better future for all, and have adopted United Nations (UN) Global Compact and Development Goals.

Area	The Ten Principles of the UN Global Compact	GRI 4 Indicator	Page
Human Rights	Principle 1 - Businesses should support and respect the protection of internationally proclaimed human rights; and	G4-SO1	60-63
	Principle 2 - make sure that they are not complicit in human rights abuses.	G4-HR10, G4-HR11	45-47
Labor	Principle 3 - Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	G4-11	205
	Principle 4 - the elimination of all forms of forced and compulsory labor;	G4-HR6	45-47
	Principle 5 - the effective abolition of child labor; and	G4- HR5	45-47
	Principle 6 - the elimination of discrimination in respect of employment and occupation.	G4-10, G4-LA1, G4-LA9	24-33, 50-52
Environment	Principle 7 - Businesses should support a precautionary approach to environmental challenges;	G4-EN3, G4-EN5, G4-EN6, G4-EN15, G4-EN16, G4-EN18, G4-EN19, G4-EN27, G4-EN28, G4-EN31	57-59
	Principle 8 - undertake initiatives to promote greater environmental responsibility; and		
	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.	G4-S6, G4-S7, G4-S8, G4-SO3, G4-SO4, G4-SO5	5-6, 45-47, 56, 65-67

Sustainable Development Goals



Investor Information
[G4-3, G4-5, G4-7, G4-31]

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Finance

Diego Gaxiola Cuevas
CFO
+52(55) 5241-7151

Investor Relations

Salvador Villaseñor Barragán
ri@alsea.com.mx
+52(55) 5241-7035

Headquarters

Alsea, S.A.B. de C.V.
Av. Paseo de la Reforma #222
3er. piso, Torre 1 Corporativo,
Colonia Juárez, Del. Cuauhtémoc,
C.P. 06600, Ciudad de México
+52(55) 5241-7100

Sustainability

Ivonne Madrid Canudas
responsabilidad-social@alsea.com.mx
+52(55) 5241-7100 ext. 7335

Corporate Communications and Public Relations

Selene González Serrato
rp@alsea.com.mx
+52(55) 5241-7134

Independent Auditors

Deloitte
Galaz, Yamazaki, Ruiz Urquiza, S.C.
Av. Paseo de la Reforma #489
6º piso, Col. Cuauhtémoc
C.P. 06500, Ciudad de México
+52(55) 5080-6000



Diseño: DDMerc Diseño Integral

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