# connects 2018

ANNUAL REPORT

**A year of major challenges and better opportunities for Alsea. Today we connect with more customers and brands and new markets with a clear purpose: “Igniting people’s spirit”**

**In Alsea we know that the heart of the business is the store and the customer, and therefore through the values of our culture we take care of our restaurants, down to the minutest detail, taking charge of the challenges and celebrating together all the achievements. This dedication and passion are reflected in each dish we serve, in each guest we serve, in each employee that grows with us, and in each community we touch.**

# MESSAGE
# FROM THE CEO

## Dear friends, employees, and shareholders

It is with great pleasure that I present our Annual Report for 2018, a year of great challenges and better opportunities for Alsea. Today we connect to more customers, new brands, and new markets with a clear objective in mind: “Ignite people’s spirits.”

This past 2018 was a year of growth for Alsea: on the one hand we continued consolidating our leadership as a restaurant operator in Latin America, through our business model that focuses on customer experience and on the other hand, in keeping with our growth strategy, on Dec. 27th we successfully concluded the aquisition of Grupo Vips in Spain and Portugal, totaling 454 stores, of which 362 are corporate and 92 are sub-franchises; and the aquisition of Starbucks France and Benelux, the aquisition of which was concluded in early 2019, including 285 stores in total, 82 corporate and 203 sub-franchises.

[102-1, 102-14, 102-50]

At the close of the year we had a total of 3,688 units, of which 2,947 are corporate and 741 sub-franchises (not including the aquisition of Grupo Vips in Spain and Portugal and Starbucks in France and Benelux) representing 7.3% of organic growth as compared to 2017. Our net sales grew 8.5%, totaling some $46.1 billion pesos; 4.9% growth in Same-Store Sales; 9.4% growth in EBITDA, reaching $6.4 billion pesos; and 39.8% growth in net earnings, equaling $1.1 billion pesos. These figures exclude the benefit of the sale of a minority share in Grupo Axo, and the restatement due to hyperinflation in Argentina.

To improve the operation and management of the business through an organizational structure that is effective and close to the operation, where decisions are agile and always focus directly on the satisfaction of our customers, we have made changes to our structure as follows:

Federico Tejado, who previously headed Alsea International, will now be leading Alsea Europe operations from Spain, incorporating, Alsea Zena, Grupo Vips and Starbucks France and Benelux, ensuring integration, cultural assimilation, and the use of synergies in these business units. Gerardo Rojas will continue heading the operation in Mexico; Armando Torrado, who was previously the Director for Real Estate Development, will now lead the operations for Alsea South America; and I shall serve as Executive President of the Company of the Company.

This reorganization stems from the commitment to meet the business objectives established in the strategic plan, with an effective organization close to the operation, generating market and brand independence so decisions can be quicker and closer to the customer. It is important to stress that this Executive team has a sum total of over 100 years experience in the Company, and therefore in the industry.

Convinced as we are that our Company's growth is only possible thanks to the passion and commitment of over 85,000 employees who make up the Alsea family, this year we launched the "Voice of the Manager", a program that will bring us even closer to our restaurant managers. This program has helped identify opportunities for further support of our operators regarding filling headcount, maintenance, systems, and product delivery. In addition, we have invested over $21 million pesos to improve benefits and to offer competitive wages to our management and operations teams.

As part of our philosophy of providing growth opportunities for our best people, we continue offering development alternatives that favor leadership and recognition for our high performance teams. An example of this is that 47% of all vacant positions were covered with internal talent, whereas we promoted almost 10,000 of our operations employees during 2018. "District Coach" is one of the development programs that makes us the proudest. It is aimed at improving the quality of leadership of operations middle management. District Managers teach, accompany, challenge and guide their people, ensuring the success of their store managers. This year, 91% of district managers in Mexico will be certified, and we will continue extending the program to the rest of our operations.

These efforts allow us to achieve significant progress in talent retention worldwide, and in the emotional ties we have with our people. An example is the result obtained in the measurement of Work Atmosphere -ECO- where we accomplished a significant improvement of 3.92 to 4.07 out of a maximum score of 5.0. Insofar as personnel turnover is concerned, during the last four years we have achieved a significant improvement of an average of 26.6 percentage points in Mexico, Argentina, Chile, and Colombia.

We shall continue working to incorporate not only sector specialists, but also people with experience in international markets, technological development, market strategies, and other areas that favor Alsea's progress and connection to different stakeholders. We shall also continue working hand in hand with new technologies, enhancing our ability to become familiarized with the preferences of our customers and offer them the best experience possible in our establishments.

Another goal for 2018 was to reiterate our commitment to sustainability by driving the four pillars that uphold our business model for all the brands and countries where we

operate: Quality of Life, where we continued with initiatives aimed at benefitting our employees, such as transportation assistance for our operation employees; health campaigns; scholarships; well-being workshops; diversity and inclusion; education; and work-life balance. On the other hand, we are committed to driving Responsible Consumerism by incorporating information on our menus that give our customers alternatives when choosing what to order, in addition to including on all menus for all our brands the calorie count for the different dishes, thereby allowing them to make the choices they prefer in terms of their lifestyle. Moreover, Alsea is a member of MOVISA (Movement for a Healthy Life), an organization that focuses on rendering assistance and support for the implementation of nutrition education projects, and to promote sports among children aged 6 to 12.

Lastly, in environmental-related matters, we continue working on specific initiatives to mitigate climate change. In 2018 we reduced CO2 emissions by 22,875 tons through our project to purchase clean energy; we contributed to the lessening of aquifer contamination by collecting 919,292 liters of oil used in running our brands; 2,066 tons of waste were recycled in our Operations Center; and we treated over 28,000 m3 of water.

In the field of community development, we continue with our work to combat nutritional poverty in children, through our movement "Va por Mi Cuenta" (It's on Me) an initiative we are very proud of since it was put into motion six years ago. In 2018, we surpassed the goal for our collection drive by obtaining over $26,000,000 pesos through three initiatives: a product with a cause in each of our brands; direct contributions from our employees and collection drives with our customers. In addition, there are now 11 dining rooms for children, with a new one located in Ixtapaluca, in the State of Mexico, with a new operation model -a school lunchroom- with a greater impact at a lower cost. Some 4,300 children are benefitted annually, serving over 552,000 meals per year; we also performed 7,730 hours of volunteerism in diverse activities.

The recognitions and certifications we have been bestowed are a reflection of our efforts in this field. Among these are our first-time participation in the regional index evaluation of the Dow Jones Sustainability Index -DJSI- for the MILA -the Integrated Latin American Market-; our participation in the Mexican Center for Philanthropy, in its CSR evaluation (Corporate Social Responsibility), where we have been given this distinction for the 7th consecutive year; our participation since 2011 in the Mexican Stock Exchange Sustainability Index; and the ratification of our commitment to future generations by adhering to the Principles of the World Pact and the Sustainable Development Objectives (SDO) sponsored by the United Nations.

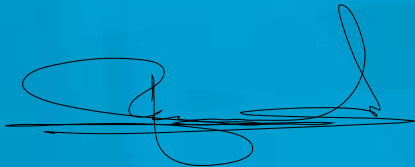
To improve the focus on service for our store managers, we will continue reinforcing efficiency and synergies in the COA, where we achieved optimum levels of supply metrics for our stores during the last quarter of the year, in addition to reducing personnel turnover rates throughout our entire supply chain worldwide.

Looking forward, we reiterate our commitment to successfully achieve our objectives:

- An agile and profitable operation focused on increasing Same-Store Sales and operational margins.
- Generating a greater cash flow to reduce our leverage level
- Maximizing efficiencies and synergies throughout all our operations
- Prioritizing the allocation of resources to our most profitable businesses
- Developing operations and administrative talent, and
- Continuing with our Manager-Owner program

I wish to express my profound gratitude to all our employees, partners, investors, and members of the Board of Directors for your active participation in making Alsea a leading company that goes increasingly further and connects to new customers and new markets with leading brands of restaurants throughout the world.

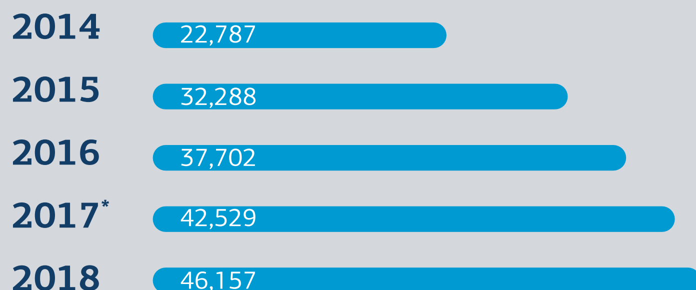
Growth involves challenges and opportunities. Today, more than ever, we must focus on our strengths and our dynamics, which translate to the ability to adapt and into the talent of all of us who are part of the Alsea family. Let us continue working with our characteristic feature: how passionate we are about ensuring that each experience in our restaurants becomes... an unforgettable moment!



**Alberto Torrado Martínez**
**Executive President Alsea**
April 2019

# FINANCIAL **HIGHLIGHTS**

### NET SALES




### EBITDA[2]

### NET INCOME

### ROE %[4]

### SSS %[7]

### UNITS

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

* 2017 figures exclude the benefit of the sale of a minority share in Grupo Axo

[201-1, 203-1, 203-2]

# FINANCIAL HIGHLIGHTS[1]

| | CAGR [5] 2013-2018 | Annual Growth | 2018 | % | 2017 [6] | % |
|---|---|---|---|---|---|---|
| **Results** | | | | | | |
| Net sales | 24% | 8.5% | 46,156.6 | 100.0% | 42,529.1 | 100.0% |
| Gross Profit | 25% | 8.0% | 31,969.1 | 69.3% | 29,605.9 | 69.6% |
| Operating Income | 24% | 6.0% | 3,293.6 | 7.1% | 3,105.8 | 7.3% |
| EBITDA[2] | 26% | 9.4% | 6,408.3 | 13.9% | 5,857.5 | 13.8% |
| Consolidated Net Income | 11% | 39.8% | 1,139.3 | 2.5% | 814.7 | 1.9% |
| **Balance** | | | | | | |
| Total Assets | | 37.4% | 54,342.3 | | 39,551.6 | |
| Cash | | 29.0% | 1,987.9 | | 1,540.4 | |
| Liabilities with cost | | 73.5% | 25,609.9 | | 14,761.4 | |
| Majority Net Worth | | 22.1% | 11,573.2 | | 9,481.6 | |
| **Profitability** | | | | | | |
| ROIC [3] | | (16.7%) | 10.5% | | 12.6% | |
| ROE [4] | | (1.6%) | 12.3% | | 12.5% | |
| **Stock Market Data on Shares** | | | | | | |
| Price | | (20.5%) | 51.15 | | 64.37 | |
| Earnings per share | | (13.0%) | 1.14 | | 1.31 | |
| Dividend | | 5.9% | 0.72 | | 0.68 | |
| Book Value per Share | | 21.7% | 13.85 | | 11.38 | |
| Outstanding shares (Millions) | | 0.3% | 835.6 | | 832.8 | |
| **Operation** | | | | | | |
| Total Number of Units | 15% | 7.3% | 3,688 | | 3,438 | |
| Employees | 18% | 4.0% | 71,621 | | 72,434 | |

(1) Figures in millions of nominal pesos and under IFRS rules, except for data on shares, number of units, and employees.
(2) EBITDA is defined as earnings before depreciation and amortization.
(3) ROIC is defined as earnings after taxes for net operating investment (total assets-cash and temporary investment – liability without cost).
(4) ROE is defined as net earnings regarding net worth.
(5) TACC Compound Annual Growth Rate for 2013 to 2018.
(6) Figures for 2017 excluding the benefits from the sale of minority interest in Grupo Axo.

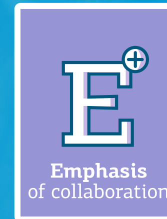
[102-45, 201-1, 203-1, 203-2]

Our culture is based on five strategic values that focus on the customer to achieve an extraordinary experience each time they visit our restaurants.

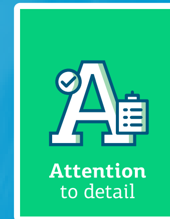
**WINNING ATTITUDE**
Being passionate about excellence, reaching ever higher goals.

**ENGAGED LEADERSHIP**
Passionate about our restaurants and about taking care of the business as if it were their own.

**SURPRISING SERVICE**
Constantly raising satisfaction standards to serve and amaze.




**EMPHASIS OF COLLABORATION**
The adding of ideas and talent to create a community that multiplies the results.




**ATTENTION TO DETAIL**
Continuous improvement to reinforce the Alsea Experience with impeccable execution.

[102-16, PM 10]

# GROWTH **MODEL**

| | | | |
|---|---|---|---|
| **INCOME AND RESTAURANT GROWTH** | **ORGANIC GROWTH** | **NON-ORGANIC GROWTH** | |
| | • Restaurant Openings (Current brands/models)<br>• Remodels<br>• Same-Store Sales<br>• New sales channels<br>• New consumption occasions<br>• New restaurant models<br>• Current income flows | CURRENT COUNTRIES<br>• Acquiring existing brands (current or new segments)<br>• Importing new brands (startup, the #1 or #2 brand in the market or country of origin<br>• Sales channel for non-restaurants (dining halls, products ready to eat, etc.)<br><br>NEW COUNTRIES<br>• Expanding current brands<br>• Acquiring existing brands<br>• Joint Ventures with leading restaurant operators<br><br>NEW INCOME FLOWS<br>• Intellectual property, services, financing, etc. | |
| **PROFITABILITY** | **OPERATIONS** | **BUSINESS MIX** | **SYNERGY AND CRITICAL MASS** |
| | • Same Store Sales<br>• Cost control<br>• COGS control<br>• Labor productivity<br>• Managing restaurant portfolio<br>• Price strategy<br>• Menu strategy | • Managing brand portfolio<br>• Managing country portfolio<br>• Corporate /Franchise store mix<br>• Currency mix | • Synergies with procurement and investment<br>• CAT reduction<br>• Investment reduction<br>• Absorbing fixed assets<br>• New income flows<br>• Real Estate |

# SUSTAINABILITY **MODEL**

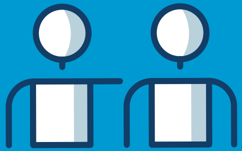
Sustainability is a fundamental business model. In this way, we contribute to sustainable economic development within society, assuming responsibility for direct and indirect impact stemming from our activity with different stakeholders to which we relate.

Our Sustainability Management Model comprises four commissions who report to the Sustainability Committee which includes the company's Top Management.

The Committee identifies stakeholder needs, defines the sustainability strategy, and supervises compliance with the initiatives proposed by the commissions.

Our management, action plans, and goals are in line with our business objectives and the priority aspects that are result of our materiality.

Likewise, as part of our commitment to achieve a better future for all, we remain aligned with the Principles of the World Pact and the Sustainable Development Objectives established by the United Nations.

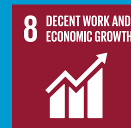


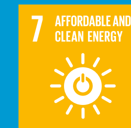
**COMMUNITY SUPPORT**
We ensure food safety for vulnerable communities and promote human development through initiatives that favor education and employability.

**QUALITY OF LIFE**
We foster the overall development of our collaborators, facilitating conditions that harmonize their personal and professional lives and provide occupational health and safety programs.

**RESPONSIBLE CONSUMPTION**
A balanced lifestyle is encouraged by promoting the enjoyment of quality meals in the company of loved ones, in combination with physical activity.

**ENVIRONMENT**
The importance we give the environment is witnessed through the efficient use of energy, water, raw materials and wastes.





[103-1, 103-2]

# ALSEA CONNECTS TO THE WORLD WITH LEADING BRANDS

**We drive the presence of our brands in the world and there is significant potential for further growth.**

## SEGMENTS
**units / % TOTAL**

QUICK SERVICE RESTAURANTS
**1,805 / 48.9%**

COFFEE SHOPS
**1,024 / 27.8%**

CASUAL DINING RESTAURANTS
**573 / 15.5%**

FAMILY RESTAURANTS
**286 / 7.8%**

Figures as of december, 2018

**3,688**
UNITS

**67%** MEXICO

**33%** INTERNATIONAL

[102-1, 102-2]

## During 2018, we continued consolidating our leadership as the top restaurant operator in Latin America and Europe through our business model and in line with our growth strategy.

**7** COUNTRIES

**14** BRANDS

**+3,600** RESTAURANTS

**+71,000** EMPLOYEES

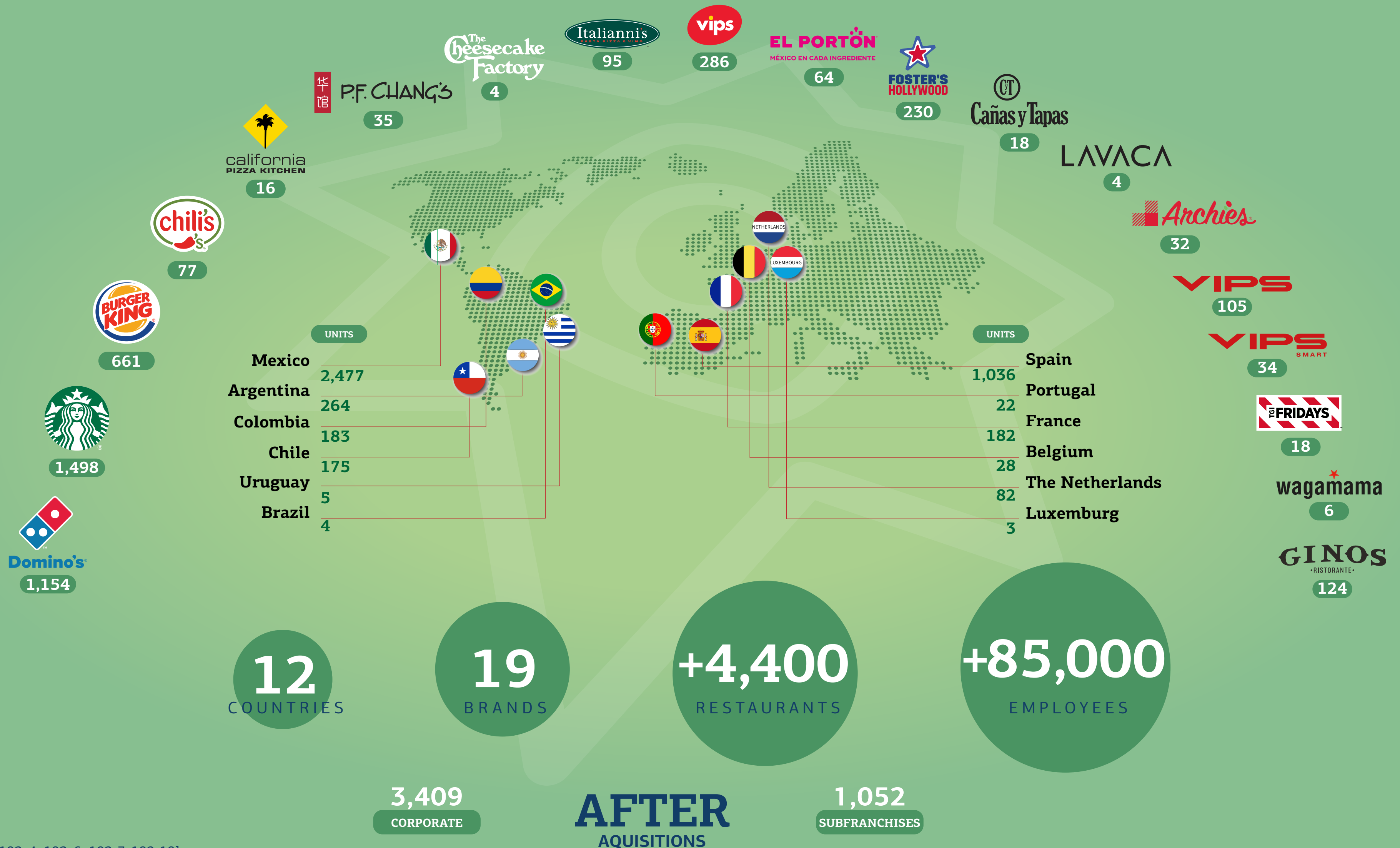
**2,947** CORPORATE

**BEFORE** AQUISITIONS

**741** SUBFRANCHISES

FIGURES AS OF DECEMBER, 2018

## On December 27th we successfully completed the aquisition of Grupo Vips in Spain and Portugal; in early 2019 we obtained operating rights for Starbucks in France and Benelux, thereby making our operation more robust in Europe.




[102-2, 102-4, 102-6, 102-7, 102-10]

FIGURES AS OF MARCH, 2019

# ALSEA **EUROPE**

This year, Alsea has significantly reinforced its presence in Europe with the purchase of Grupo Vips in Spain and Portugal, and once again, with the acquisition of operating rights of Starbucks in France, the Netherlands, Belgium and Luxemburg.

Grupo Vips adds 454 stores (362 corporate and 92 franchises) to the Company portfolio and with the incorporation of Grupo Vips and Zena-Alsea in Spain and Portugal, Alsea we became one of the major restaurant companies in Iberia, with over 1,000 stores and restaurants and a total of 10 brands throughout the region. In this manner we consolidated our long-term project in the region, having brands that generated greater value for the Company.

This strategic operation represents a great opportunity to consolidate our presence in the European market because Grupo Vips has over 50 years of experience and a portfolio of consolidated brands with enormous growth potential, in addition to being an important opportunity for synergy in the region.

Moreover, Alsea has acquired the rights to operate Starbucks in France, the Netherlands, Belgium and Luxemburg, totaling 285 stores, of which 82 are corporate 203 are sub-franchises. Through this transition, Alsea will expand its presence with Starbucks in Europe, a brand that enjoys great acceptance throughout Europe and with which Alsea has considerable experience regarding operations and strategic plans.

[102-10, 102-49]

VIPS

- Leading concept in the casual dining sector in Spain, with 50 years of experience
- A restaurant-cafeteria with an extensive culinary offering that fits all tastes and moments of the day
- The very first VIPS restaurant opened it doors in Madrid in 1969, and quickly became an iconic brand in Spain

VIPS SMART

- A Fast Casual chain that combines the best of a VIPS restaurant-cafeteria with the agility of fast food
- VIPS Smart is the sum of Smart Service + Smart Food + Smart Price + Smart Place
- The first VIPS Smart restaurant opened its doors in 2016 in Madrid and today it has over 30 establishments

GINOS •RISTORANTE•

- A chain specializing in Italian-Mediterranean cuisine
- Its customers enjoy freshly made dishes with ingredients straight from Italy, a hospitable, warm and cosmopolitan atmosphere that entices one and all to share the experience
- Created in the late 80's, the brand has over 120 restaurants throughout Spain and in Lisbon, Portugal

- One of the most important casual dining chains in the world, with 870 restaurants present in 29 countries
- Fridays offers its customers the experience of the authentic American Bar & Grill, in an atmosphere full of energy and excitement
- The ideal place to socialize and celebrate the spirt of being Friday, every day of the week
- A brand present in Spain since 1992, with 18 restaurants

wagamama

- Wagamama is a well-known brand with over 25 years of history, inspired in the fast-paced Japanese ramen bars. It offers a menu of Asian dishes that are organic, nutritional and made on the spot.
- A great way to feed the soul, in addition to the body
- The brand arrived in Spain in 2017, with 6 restaurants currently in operation in Madrid

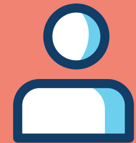
- Starbucks arrived in Spain in 2002 and 2008 in Portugal
- Thanks to its broad acceptance and the loyalty of its customers, it now has over 140 stores throughout the main cities and airports of Spain and Portugal

ALSEA CONECTS
# LEADING BRANDS AND TALENT

**We have strategies focused on training and retaining the best talent in the industry**

**+10,000**
PROMOTIONS

**28.26**
AVERAGE TRAINNING HOURS PER EMPLOYEE



**+71,000**
EMPLOYEES

**53%**
MEN

**47%**
WOMEN

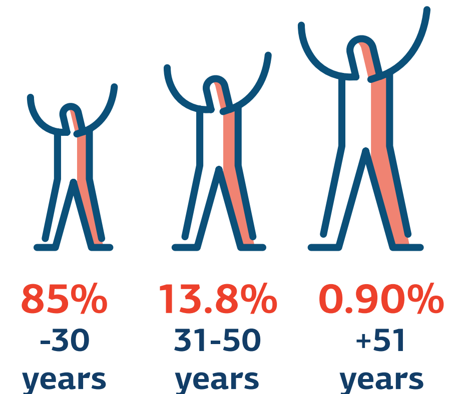
# WINNING
# TEAM

**We are convinced the growth of the Company, the positioning of our brands, and the rapport with our customers is only possible thanks to the passion and commitment of the employees who are part of the great Alsea family.**

This year we launched different initiatives that allowed us to have greater contact with our manager and provide the support needed to increase team productivity and enhance customer experience. Initiatives aimed at improving leadership quality among middle management and reinforcing the competitiveness of our compensation teams were put into place, thus significantly raising talent retention worldwide.

| | Total | M | W |
|---|---|---|---|
| Mexico | 43,715 | 23,352 | 20,363 |
| Argentina | 7,860 | 3,236 | 4,624 |
| Chile | 3,869 | 1,816 | 2,053 |
| Colombia | 3,408 | 1,998 | 1,410 |
| Spain | 12,769 | 7,243 | 5,526 |

45% of women
occupy management positions




[102-8, PM6]

## Emotional commitment

Throughout last year, 100% of our employees were given the opportunity to participate in the Engagement Survey -ECO- that has been conducted for two years now. With this tool we can listen to the opinions and feelings of our people, identify their needs, and define the way to offer an enhanced work experience in coordination with the leaders.

We proudly achieved 92.41% participation by our employees in this process, with an increase of 0.15 in the engagement indicator, as compared to the score recorded for 2016, thereby achieving a result of 4.07 on a scale of 0 to 5.

These results are a reflection of the quality of leadership in Alsea, proof of the concern our store managers and support center leaders have worldwide, regarding their desire to connect with their people and establish effective plans that improve the integration of their teams.

**4.07** global engagement score on a scale of 0 to 5

**ENGAGEMENT RESULTS BY COUNTRY**

| | 2018 | 2016 | Variación |
|---|---|---|---|
| Mexico | 4.18 | 4.03 | +0.15 |
| Argentina | 3.82 | 3.75 | +0.07 |
| Brazil | 3.74 | 3.74 | 0 |
| Chile | 4.14 | 3.89 | +0.25 |
| Colombia | 3.97 | 3.72 | +0.25 |
| Spain | 3.81 | 3.68 | +0.13 |
| Uruguay | 4.3 | - | - |

## Talent development

Developing our employees is one of the most important strategic pillars we have. Our proiority is to drive their growth and offer them a long-term career path. In keeping with this, we constantly develop programs aimed at training the best leaders in the industry who in turn become drivers of the development of new generations of leaders.

## Inter-brand career paths

We continue working on designing inter-brand paths and we contribute actively to the development of our employees. This program consists of covering vacant positions in one brand with candidates from another brand, thereby leveraging their experience and fostering long-term careers. As of 2019, we will change the way we measure things and be much more objective, with an increasingly more robust procedure.

## Mentoring

This constitutes a mentoring skills-development program, accompanied by an external coach. Mentors are assigned according to their areas of competency and the specific needs of the mentees. Together, they then define work objectives and they meet monthly to work in confidential sessions.

Each mentee develops a new skill or competency, and the corresponding mentor becomes a role model within the organization to develop key competencies for the business and to network outside the sector.

Through this program, Alsea develops the potential of its people, improves performance, promotes greater profitability for the business, generates synergies among areas and brands, and reinforces the organizational culture.

[401-1, 404-2, PM6]

**Mentoring circle**

This program seeks to broaden the vision of the business from an overall perspective, supporting the development of its employees through mentoring circles whereby experiences are shared, and personal and professional competencies are reinforced.

The circle encounters take place every two months. The participants break up into pairs and each one oversees the preparing of a case dealing with business and leadership subjects. The purpose of the program is to consolidate the Mentor as a role model and reinforce his/her position within the organization. There are currently 12 participants enrolled -1 mentor and 11 mentees.

**Significant improvements in turnover rates**

Personnel turnover indicators have improved by 26.6 percentage points in Mexico, Argentina, Chile and Colombia in the last four years. This is largely due to the initiatives employed to improve the work experience of our people, the continuous investment in training and education, and improvements to the wage competitiveness of our people.

**Average hours of training per collaborator per country**

- Chile: 25
- Argentina: 36
- Spain: 4.9
- Mexico: 35.61
- Colombia: 7.38

28.26 average hours trainning per employee

**Diversity and Inclusion**

- The 2nd generation for the Reach High program, with 16 participants worldwide was successfully concluded this year. The aim of this program is to accelerate the personal and professional development of high-potential women to drive their career path in Alsea. The program consists of selecting women holding positions from Manager up to Director; eight sessions are held in multicultural teams where case studies are analyzed and resolved. One of the greatest values of this program lies in the synergy of experiences and collaborative learning at a high level.
- We implemented the Diversity and Inclusion policy that promotes a culture of respect for diversity, labor equality, non-discrimination and inclusion of vulnerable groups. This policy ensures compliance with equal opportunity guarantees for all members of the Company. Globally we have 237 employees with disabilities.
- Workshops on Diversity and Inclusion were held for the Human Resource departments, who are in charge of permeating this philosophy into our culture.
- In Mexico and Argentina, 80% of our employees are unionized.

**Flex Time and Flex Friday**

This applies to all personnel in the support centers of Mexico, Colombia, and Spain. The objective is to promote a work-life balance by offering the benefit of 9-hour work schedule from Monday to Thursday, where personnel may start work at 7, 8 or 9 a.m., and therefore on Fridays work 6 hours straight and leave at 1, 2 or 3 p.m., respectively.

This policy establishes that the flex schedule may be applied providing it does not affect support for Operations; accounting closes; payroll management; novelties; previously established commitments; meetings, and the like.

[401-3, 405-1, 406-1, PM6]

**District Coach**

To meet the goal set for growth, we must continue consolidating a world-class team and therefore developing our people takes on a crucial role. The need for leaders who develop leaders is fundamental, and more so than ever before they must not only support Company growth by achieving results, but also recognize valuable contributions, be genuinely interested in developing others and, above all, provide the resources needed for proper management.

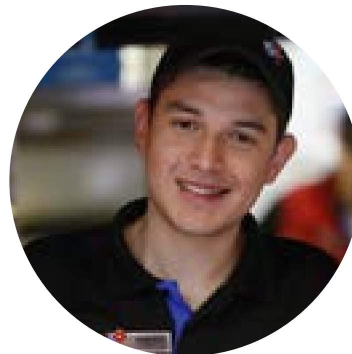
Thus, in keeping with our philosophy of Manager-Owner, we have developed District Manager-Coach, a program that seeks to further evolve the profile of our District Managers and help them reach the next level. This also stems from the awareness that they are the most important leaders in the Company and that it is they who lead the operation.

The profile of District Manager was redefined in 2018, adding the dimension of Coach and providing the necessary training for the deployment of the program. The initiative was launched in Mexico with training workshops and follow-up for the new role of District Manager, supervised by the support center.

**Circle of Leaders**

At the Alsea Center of Operations (which in Mexico incorporates our operation of Logistics, Manufacturing and Transportation) we launched the Circle of Leaders I, a review of Culture and Leadership focused on middle management with the support of the team of Directors, to solve the challenges faced by the Center of Operations in the field of People. Through weekly seminars and group dynamics attended by 90 leaders, we were able reduce turnover rates by 50%, thus helping to stabilize the overall team and improve service for operations. Going forward, phase II of the Circle of Leaders will take place, and the objective will be to build a store-centric production team.

The program shall be extended to other Alsea markets.



**The Voice of the Manager**

We know our managers are the fundamental pillar of our operations, and therefore their opinions and comments are very important to the establishing of programs that contribute to continuous improvement and value generation for the organization. It it with this premise in mind that the Voice of the Manager program was developed in Mexico, whose purpose is to establish direct contact with store managers and obtain first-hand information from them on their operation needs and the assistance they expect from the support areas.

With this program we seek to reinforce and develop the talent of our work teams and generate enhanced results for the business and for our customers.

This program is meant for store managers with proven commitment and potential, as noted in their performance and result indicators.

There are dialogue sessions with the CEO and managers, in periodically scheduled meetings to listen to their colleagues and express their opinions and viewpoints regarding operations. There is also support from other areas that contribute to operational excellence and provide follow-up on solutions for identified issues.

14 store managers participated.

- 2 Domino's Pizza
- 3 Starbucks
- 1 Italianni's
- 2 Vips
- 1 Burger King
- 1 California Pizza Kitchen
- 1 P.F. Chang's
- 1 El Portón
- 1 Chili's
- 1 The Cheesecake Factory

The program shall be extended to other Alsea markets.

**A work atmosphere that incorporates work-life balance contributes to the ideal performance of our people. As a result, at Alsea we continuously develop programs that encourage practices for their general well-being.**

**Agreements and benefits**

- We reviewed the rules governing the 30%-discount that our employees have with our brands, representing $21.4 million pesos in savings for 53,000 Alsea employees throughout 18 months
- A policy for transportation assistance was defined with the purpose of protecting the safety of employees traveling to or from work, under three conditions:
  a) Anyone in charge of opening a unit prior to 6 a.m., or closing after 10 p.m.
  b) If the restaurant is found in a dangerous area
  c) If there is no public transportation nearby, prior to the opening or after the closing of any Alsea establishment
- Once again, we held the multi-brand Health Fair that offered free lab tests for weight control, vision analysis, and dental check

[401-2, 401-3, PM6]

**Diversity and Inclusion**

- In México, our maternity and paternity policy exceeds that required by law, thereby allowing us to grant benefits during initial maternity and paternity period, in the case of childbirth and/or adoption, as follows:
  - Paternity:
    - 7 days straight, with pay
  - Maternity:
    - Days off and reincorporation to work schedule
    - Compressed shift: 4 hours/day of work, increasing one hour of work as of the 5th month of birth
    - Flex time: 3 days at the office, and 2 days of home office
    - Additional time off: up to 90 days off without pay for childcare purposes
    - Breast feeding rooms with the proper conditions for milk extraction and conservation for those mothers who have already used their maternity leave
- Inclusion analysis was begun for people with different capacities to promote talent selection beyond physical, social or mental abilities. This diagnostic instrument determines the compatibility of the position as pertains to the limitation or abilities of the candidates. We currently have 237 employees who are part of this program.
- The headquarters in Mexico City are LEED Gold certified, with spaces suitable for working more efficiently, better lighting, ventilation system and less noise. This certification allows us to have a more ergonomic work space.

## ARGENTINA

**Leading for success**

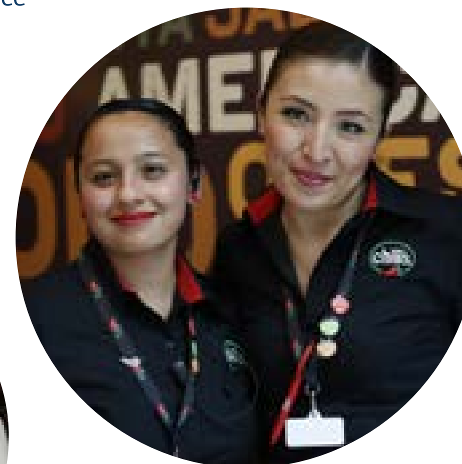
This is an In-Company training program at the prestigious Torcuato Di Tella University. It consists of 60 hours of classroom training that culminates with the presentation of an integration project. The purpose is to train District Managers in three fundamental business lines: leadership and commitment, strategic thinking, and a vision of the business.

We currently have 38 employees enrolled (31 District Managers and 7 support area employees) in this program and their actions are recorded and evaluated on a scorecard upon finalizing each module.

**Training pass**

This consists of a series of courses lasting between 20 and 48 hours of executive training in the aforementioned prestigious university. These courses are offered to personnel with good performance and potential. The programs were chosen based on the developments needs of each participant. The subjects covered include:

- Negotiation
- Creativity
- Emotional Intelligence
- Mindfulness
- Neurosciences



## COLOMBIA

### Individual development plan

The program includes a 4-hour workshop that was internally designed and offered to Company employees, with the purpose of providing personal development tools, whereby they identify their strengths and opportunities and then clearly and assertively work on them in their individual development plans. Some 115 employees participated in a total of 7 workshops.

### Unisabana Scholarship for Excellence

The purpose is to recognize the professional competency of those who, due to their performance in the company, are suited to hold top positions of responsibility, acknowledged for the quality their work and social commitment. This year the program was aimed at 180 support center employees, of which five candidates registered.

The scholarship is applicable for nine Management specialization programs under the Postgraduate Studies Department of the International School of Economic and Administrative Sciences.

**Agreements with educational institutions for higher learning**

An assistance program with discounts for Alsea personnel and their family members –relatives of up to 3rd degree- during their higher education process. It is currently available for 3,200 employees. Each employee may approach the participating institutions and present the employment certificate of the Company to request said discounts.

Among some of the institutions with which the Company has obtained educational assistance agreements are the following:

- Universidad Santo Tomás
- Fundación Universitaria Unipanamericana
- Fundación Nueva América

**Program for Epidemiological Surveillance (bones and muscles)**

This program pertains to the department of Occupational Health and Safety, having the purpose of detecting, preventing, controlling or eradicating osteo-muscular disease. In 2018 we were able to make this program available to 100% of our employees.

**Alsea Contigo**

A communication system whereby employees of brands operated in Colombia may keep up to date with all novelties, events, changes, and activities taking place in the Company.

The system has two principal sections: Recognitions GO, where employees receive mention for being outstanding in any of the corporate values -Winning Attitude, Involved and Benefits GO, where employees have access to the broadest network of agreements and incentives, personal and for family members, with over 120 recognized regional and local brands in almost Leadership, Amazing Service, Collaborative Service, and Attention to Detail- 20 different categories.

## SPAIN

**Popular races**

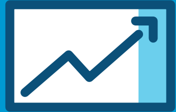
Three races evaluated in 2018 to foster healthy habits among our personnel. Some 243 runners participated, running a total of 1,211 km, with purposes of solidarity in favor of cardiac health and in support of associations fighting against cancer.

**243 runners**

**1,211KM WITH SOLIDARITY PURPOSES**

# ALSEA CONECTS TALENT TO OPERATIONS

**We work with the maximum level of efficiency and we are fully focused on the preferences of our customers to create the best experience each time they visit our restaurants**



**Enlace**

**3,566** USERS

optimizing response times

wagamama

# BEST **OPERATOR**

**The best experience in our restaurants goes beyond flavor. We operate each store with the utmost attention to detail, offering exceptional service and innovative, top quality, products.**

During 2018 we celebrated the opening of our 1,000th Domino's restaurant, announcing a 5-year development plan, with the goal of 550 openings (350 corporate and 200 franchises) together with an investment of over 195 million dollars. This expansion plan will create 9,000 new jobs in Mexico, Spain and Colombia.

**A team committed**
TO QUALITY AND SERVICE EXCELLENCE

## ENLACE

A powerful technological platform that provides support to restaurants in solving operation needs and ensures service continuity. It is a point of encounter between district and regional managers and the different support areas such as maintenance, quality, audit, and human resources.

Through this platform, managers can create requests that become action plans monitored in real time, until the moment of completion.

Moreover, connected to the Alsea database, Enlace displays a window with financial indicators to provide operators with visibility of indicators regarding sales, productivity, profitability, and human resources in real time.

The platform has reached a total of 3,566 users throughout the different countries where we operate, and it has helped reduce the workload of the District Manager Coach in Mexico by 30% within the corresponding supervision model.

Stemming from the use of this platform, response times have been optimized in addition to achieving considerable reductions-savings in the use of paper.

## RESPONSIBLE CONSUMPTION

Our commitment to our customers is to offer the best flavor and quality in each product as well as to promote a healthy lifestyle. Therefore, in 2018, we consolidated an independent team of Research & Development, to work with our brands according to their needs and collaborate in the publication of the nutritional content of our menus.

This information helps consumers make the best choices, in keeping with their lifestyle and complying with nutritional goals. It is also available on our website for immediate reference.

[417-1]

## MEXICO

### VIPS: PRODUCTIVITY AND EFFICIENCY

Vips has undergone a transformation with the purpose of complying with our promise to provide our customers with the best experience.

This transformation should not only be noticed in the appearance of the restaurants, but also in the quality of the ingredients, and the service received by our guests, therefore we have set in motion a series of actions aimed at improving our operation and increasing the productivity of the work team:

**Vipster network**
This is a recently launched inhouse platform aimed at making available all necessary information to restaurant managers regarding their duties, thus avoiding time lost in seeking or requesting relevant data, optimizing their daily schedule by almost 15 percent

The platform has benefitted over 10,399 Vipsters and it has all the documents and processes needed by the brand for optimum operation:

- Recipes
- Protocols
- Processes
- Videos
- Bulletins
- Communiqués

**Project Scanner**
A system developed especially for points of sale where discounts are applied before reaching the register and having issued the bill. This project has managed to reduce by 40% the time our customers have to wait in line at the register.

**Manager Agenda**
The Manager Agenda program was launched with the purpose of improving the quality of life and operational management of restaurant managers. The program seeks to reduce the administrative tasks performed and help to make time for managers more efficient through delegation and a 40%-reduction in duties. Some of the advantages offered by the program are:

- Reduced and structured schedule for administrative tasks
- Greater focus on core activities of the business
- More time for customers, employees and for themselves

**Chef and Omega Manager**
A Vips training program in which Omega Chefs and Managers train their colleagues to ensure that quality, hygiene and service standards are being met properly and in the right time, with a service attitude and fully in keeping with operational manuals.

The primary functions of the program are to:

- Provide support to the operation
- Train and certify employees
- Ensure training of chefs and managers in all units
- Develop exemplary employees who comply with our values, and who drive the Vips culture

**T.A.C.T.O.S**
A food testing standardization program to guarantee the best quality in iconic Vips products.

**Service Leader**
This program is aimed at reducing unsolved complaints in restaurants and to enhance our customer service. Ever since its launch in January 2018, the program has reduced the number of complaints by 50 percent.

**Training of kitchen staff**
This initiative seeks to improve the making of food and beverages. The results have been positive. We have achieved a 5-percentage point improvement in ISA surveys (Alsea Satisfaction Index) regarding our food products.

## STARBUCKS, CLOSER THAN EVER TO OUR CUSTOMERS

### Coffee Master

The program for training Coffee Masters is in keeping with the strategy of being leaders in coffee and in customer satisfaction. We closed the year with +50% of certified Coffee Masters, thereby improving connection and quality of beverage KPIs. The result obtained to date is 85% of the KPIs.

The indicators measured with this program include:

1. Training and experience
2. Coffee quality
3. Coffee sales

### Make My Day Challenge

An internal initiative meant to reduce service-related complaints, and at the close of 2018 there were 50% less complaints filed. The program, launched in October 2018, allows our baristas to amaze our customers with actions that connect to them, such as:

- A comment
- An action in particular that could be registered at their coffee cup
- Special words when the customer pays
- Actions upon handing the product to the customer
- A message said in chorus by all the baristas
- A sketch
- A question

### Reusable containers

In 2018, we began to produce the cups locally, thus achieving a 44%-reduction in costs. In addition, the lead time was reduced from 5 months to 3 weeks.

Lastly, as of September 2017 we began a new offering with seasonal cups, producing $2,000,000 pesos in incremental growth.

## ARGENTINA

### STARBUCKS

**Playbook Certifications**
With the purpose of improving back orders and the cafeteria bar, we recertified all stores nationwide in the use of Playbook. This tool is a planning guide that allows our baristas to manage their operation and routine schedules in a more efficient manner, thus providing customers with enhanced service.

**Review of consumption and delivery days**
Operations, together with Supply work together to reduce frequency of deliveries from the Distribution Center. As a result of the strategy on estimating orders, the back orders and logistics runs allowed us to reduce deliveries by 24 per week.

**Labor management**
We follow different strategies to make the work of our people more efficient, as follows:

- We reviewed the ideal headcount of employees, according to the needs of each store with the purpose of not exceeding budgets for salaries and benefits. This strategy has allowed us to close activities in keeping with these two line items.
- The design and implementation of the Part Time Shift Supervisor ensures compliance with 6-hour shifts
- Modification of assigned breaks schedules
- The Mystery Shopper tool was recalibrated to continue

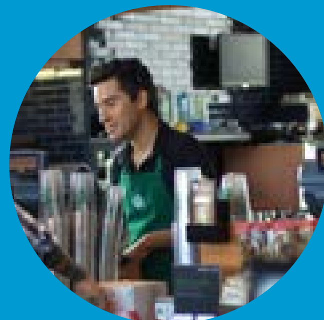
enhancing customer service levels

**Latam Costs**
A cost control and management program focused on increasing efficiency and control of raw materials and orders per store. Thanks to this program, costs were made efficient regarding budgeting for the last quarter of 2018.

**LST / Geo Victoria**
These two programs seek to efficiently schedule production times and better plan the hours available for operating in stores, in addition to managing arrival and departure times, as well as work schedules for business partners.

**Delivery**
This sales channel was opened together with the best operators on the market: Uber, Glovo and Rappi. With this channel, we have been able to create a greater connection to our customers and arrive when and where they need.

**Fanatics for Coffee**
With the purpose of increasing the culture of coffee drinking among our customers, we implemented a program known as Fanatics for Coffee. Through this program, our expert baristas and Coffee Masters share all their expertise and knowledge, from the different coffee-growing regions in the world, types of coffee beans, blends and roasting, to the ritual involved in preparing a beverage of excellence. The goal is to enhance the experience of the partner and the customer regarding our cups of coffee.



## P.F. CHANG'S

We initiated cross-training at the operations level, making the Tongshis cross-functional. Simultaneously, we began a manager level cross-functional program to develop chefs in service-related matters, and vice versa.

## BURGER KING

**Alsea College**
We reinforced operational areas through training and communication programs with Alsea College, through leadership workshops.

**Manager Training**
The Manager Training model was restructured (Asst. Manager for BK), limiting locations, providing more in-depth training, and reinforcing the position of Manager Owner.

**Delivery**
Delivery was incorporated as a new sales channel with the four operators still found in the market (Uber, Rappi, Glovo and Pedidos Ya) with an organized plan and a scaled launch schedule.

**QR Codes**
QR Code readers were installed in all stores to speed up and improve the experience of our customers when paying their check.

In Alsea, our commitment is overall, therefore we promote environmental protection through programs and initiatives whose purpose is efficient resource use wherever we operate.

## MEXICO

### Energy Use

The growth we experienced in stores and operations required greater use of energy, thereby producing a marginal increase of 4%. This result stems from our efforts to curb energy use in our establishments.

On the other hand, by centralizing the Distribution Center, Commissary, and Bakery, we experienced a marginal improvement in diesel and gasoline consumption nationwide; that is, approximately 0.5%. This includes routes due to new openings.

ENERGY USE

| Fuel | 2017 | 2018 |
|---|---:|---:|
| Electricity (kWh) | 264,479,889 | 239,468,796 |
| Wind energy (kWh) | 3,570,313 | 43,406,881 |
| LP Gas (liters) | 30,345,434 | 31,947,297 |
| Natural Gas ($m^3$) | 8,786,520 | 8,480,990 |
| Diesel (liters) | 5,383,415 | 5,358,779 |
| Gasoline (liters) | 3,008,206 | 2,966,965 |
| **Total** | **315,573,777** | **331,629,707** |

Our growth in stores enabled us to achieve a minimum reduction of 0.1% in greenhouse gas emission due to the use of fossil fuels, which is equivalent to 2,748 tons of CO2eq, that is without the reduction achieved in renewable energy, which is equivalent to 22,875 tons of $CO_2$eq.

Tons of $CO_2$eq

| Fuel | 2017 | 2018 |
|---|---:|---:|
| Electricity (kWh) | 139,380.90 | 126,200 |
| LP Gas (liters) | 49,711 | 52,493 |
| Natural Gas ($m^3$) | 20,245 | 19,687 |
| Diesel (liters) | 14,101 | 14,047 |
| Gasoline (liters) | 6,732 | 6,662 |

On the other hand, the emission value of CO2 in 2017 per electricity use (indirect) is reestimated at 9% due to changes to the domestic emission factor, which dropped from 0.582 to 0.527 in 2018, corresponding to 14,546 tons of $CO_2$eq.

EMISIONS IN TONS OF $CO_2$eq

| | 2017 | 2018 |
|---|---:|---:|
| Scope 1: Direct Emissions | 90,789 | 92,890 |
| Scope 2: Indirect Emissions | 139,381 | 126,200 |
| **Total** | **230,170** | **219,090** |

Total contributions to emissions of tons of $CO_2$eq both direct and indirect, are proof of the 2.3%-increase in energy use, and the 9.5%-decrease in use of the traditional electricity grid.

[302-1, 302-3, 302-4, 302-5, 305-1 , 305-4, 305-5, PM7, PM8, PM9]

During this period, with the purpose to reduce our impact of atmospheric emissions, we considerably increased the acquisition of wind energy, growing our consumption from 3,570,313 kWh to 43,406,881 kWh, which represents a reduction of 22,875 tons of $CO_2$eq. This consumption represents 15% electricity use from renewable sources.

Likewise, and despite the growth in the number of stores, we were able to reduce the use of energy sources thanks to good operating practices. Throughout 2018, we added 149 new facilities in Mexico that use LED lighting and efficient water heating equipment, thereby reducing $CO_2$ by 822 tons. Thanks to the results obtained we are replicating this practice in all existing stores.

| Fuel | 2017 | 2018 |
|---|---|---|
| Electricity (kWh) | 264,479,889 | 239,468,796 |
| LP Gas (liters) | 3,570,313 | 43,406,881 |
| Demand (kWh) | 268,050,202 | 282,875,677 |

On the other hand, we continue applying demand management and monitoring strategies to the energy baseline. This year we achieved an energy intensity of 135,293 kWh/restaurant in our establishments.

We reduced our energy use in our Starbucks restaurants by renewing lighting fixtures, improving heating, ventilation and air conditioning systems and by optimizing the efficiency of other machinery and equipment.

TON $CO_2$eq

| Fuel | 2017 | 2018 | Reduction |
|---|---|---|---|
| Electricity | 139,380.90 | 126,200 | -9.5% |
| LP Gas | 49,711 | 52,493 | 5.6% |
| Natural Gas | 20,245 | 19,687 | -2.8% |
| Diesel | 14,101 | 14,047 | -0.5% |
| Gasoline | 6,732 | 6,662 | -1% |
| **Total** | **230,170** | **219,090** | **-4.8%** |

This represents a total reduction of 5% of tons of $CO_2$eq.

**Water**

Water is a highly valued resource in our operations and, therefore, we continue implementing specific strategies and metrics to regulate its use and treatment though controls on machinery and equipment, the use of meters in our restaurants, and by sensitizing personnel on best practices for rational use and consumption.

This year 2,673,269.32 m3 were consumed, representing a 9%-increase over last year due to an increase in the number of stores. Alsea operations treated 28,212.96 m3 in the COA.

At Starbucks we installed continuous flow systems to wash utensils and water savings technology were included for washing equipment, the bar, and coffee machines. Likewise, we trained baristas in the cleaning of equipment and how to maintain the refrigeration grills and ice machines in optimum operating conditions.

At Chili's and El Portón we evaluated two different technological devices for savings in kitchen equipment and sanitary facilities.

[303-3, PM8]

**Wastes**

Throughout 2018, some 919,292 liters of burned vegetable oil was collected from our restaurants for conversion into biodiesel. We continue with our garbage separation program in all our stores in Mexico City, and we have put into place waste reduction campaigns to diminish the generation of wastes:

**STARBUCKS**

With our customers we promote the use of their own containers to reduce the use of disposable cups, through awareness campaigns and discounts. The sale of reusable containers has grown 7.3% as compared to figures for last year.

- Plastic straws have been replaced with paper straws in stores
- Cold foam caps for cold drinks are provided, thus avoiding the use of straws
- Plans are in place for the worldwide elimination of single-use plastic straws by 2020, with a new cap for frozen, straw-free beverages, and bio-degradable straws.

At the COA, programs have been put into place for the separation and evaluation of wastes, thereby needing less waste disposal and promoting recycling practices for wood, cardboard, shrink-wrap, plastic, and scrap. This year 2,006 tons of waste were recycled:

WASTES

| | **Total kg** | **%** |
|---|---|---|
| Wood (pallets) | 1,409,742 | 68 |
| Cardboard | 485,680 | 24 |
| Shrink-wrap | 132,174 | 6 |
| Plastic | 29,167 | 1.5 |
| Scrap | 9,350 | 0.5 |
| **Total kg** | **2,066,113** | **100** |

**Raw Materials**

In 2018, we conducted a significant change to the carboard process for our Domino's pizza boxes, changing from white liner to Kraft liner, thereby eliminating the chemical bleaching of cellulose fiber with which the boxes are manufactured. Through this change we have considerably lessened to impact of water pollution resulting from the use of chemicals.

This year, Alsea used 9,000 tons of paper and, in keeping with our sustainability strategy, the raw materials we purchase are 100% recyclable.

[301-2, 306-2, PM 7, PM 8]

## SPAIN

The opening of 40 Domino's restaurants throughout the year increased energy use by 24 percent. We currently have an agreement in force which consists of a system indexed to the daily auctioning process to obtain better invicing costs for regulated concepts, and a K coefficient per kW we pay the marketer.

| Fuel | 2017 | 2018 |
|---|---|---|
| Electricity (kWh) | 59,078,354 | 73,500,589 |

In order to improve performance we have been working on consumption recording systems to have greater accuracy regarding consumption in our establishments; this is through monthly invoicing control and we continue with efficient energy use programs aimed at reducing power, such as replacing old weatherization machinery with more efficient units; substituting equipment and fuel (electricity to natural gas); reducing reactive loads; and changing fixtures for LED lighting.

## COLOMBIA

In Colombia, we had a marginal increase of 2% in energy use, primarily due to the opening of Domino's Pizza and Starbucks units.

| Fuel | 2017 | 2018 |
|---|---|---|
| Natural Gas ($m^3$) | 64,712 | 73,800 |
| Electricity (kWh) | 12,017 | 12,226 |

Nevertheless, we conduct several initiatives aimed at improving performance by:

- Changing our energy marketer, thus reducing costs 11% per kWh
- Changing fluorescent fixtures for LED lighting in new units and POS in operation over 2 years.
- Creating a diagnostic system for load balancing in production plants and old stores, where loads that increase intensity demand have been detected.

On the other hand, we want to explore the use of clean and photovoltaic energy sources to improve consumption on our terraces and in production plants.

We generated 2,728.40 tons of CO2 this year, 2% higher than in 2017.

## Raw Materials

In Colombia we developed various sustainability plans with suppliers, with the purpose of reducing our environmental impact on different fronts such as water, waste generation, the use of chemicals, and more efficient equipment.

Some of the more representative cases are as follows:

- Straws: We have incorporated the use of an oxo-biodegradable product made with technology that can break down in the presence of oxygen, pursuant to the European standard CEN/TR15351, thereby providing our customers with a more environmentally friendly consumption, fostering recycling, and reducing overall environmental impact.
- Hygiene products: We established an alliance to to supply products made with environmentally sustainable materials. Through this alliance we are participating in Eco-sustainability, aimed at reducing water and energy use in paper mills, recovering solid wastes, and reducing packaging materials per ton of product.
- Vegetable oil: We are conducting a program designed for the responsible use of Used Cooking Oil (UCO) through Greenfuel, who collects the oil at the store for the proper disposal of this by-product, thereby reducing the pollution of urban water sources and enabling traceability of wastes, in addition to guaranteeing its conversion to biodiesel, ensuring that these waste products are not reused for human consumption or as raw materials for balanced meals.
- Fruits and vegetables: We achieved the goal of handling these inputs with certified GAP suppliers and have made the change in the brands Domino´s and Burger King with a new supplier, who has good agricultural practices and clean agriculture processes that it guarantees from the crops, products with certified manipulation.

Additionally, we conduct internal initiatives that promote improved environmental performance with our employees:

- Starbucks: We promote the use of coffee residues as composting material, either as whole beans or ground coffee.
- Archies, P.F. Chang's and Burger King: We have connected with a recycling service supplier through talks on raising awareness with our stores and coordinated through our Quality department, with the goal of developing proper disposal methods for wastes at the point of sale, separating organic matter from recycled material. This initiative is currently underway, and the goal is to take it to the rest of the Alsea Colombia brands.

## STARBUCKS

LEED certification was accomplished for 3 stores, thus ratifying our commitment with the environment, in addition to conveying the philosophy of environmental protection to our employees, customers and suppliers.

This initiative also contributes to the efficient design, construction operation and maintenance of our units, seeking the minimum impact possible in energy use, water consumption, waste production, etc.

During 2018, we eliminated the use of cardboard and plastic cups in our stores and we encourage our consumers to join this initiative by giving them a reusable container for cold and hot beverages alike. During the term of this campaign, as reinforcement we invited our customers to personalize their containers with three of our partners.

In addition, we switched from plastic straws to paper ones and we use cold foam caps for cold beverages, in the aim to reduce the impact of plastic waste with our products.

## CASUAL DINING

We promote the use of reusable and recyclable packaging for food products and eliminated the use of plastic bags in all our restaurants.

## P.F. CHANG'S

At the Isidora Goyenechea branch we started the recycling project for cardboard, thereby having increased control over the separation of wastes.

## BURGER KING

Plastic containers were replaced by cardboard ones, with the purpose of reducing our plastic waste footprint.

## SUPPORT CENTER

We contribute with and promote the use of compostable utensils, that is, organically degradable to avoid disposal the increase of inorganic wastes in our Support Center.

Moreover, we were able to collect 90% of the cooked oil that comes from our Burger King, P.F. Chang's and Chili's restaurants, equivalent to 99,082 liters, thereby avoiding the contamination of almost 100 m3 of water.

# ALSEA CONNECTS OPERATION TO SERVICE

**Maximizing efficiencies and synergies throughout our entire supply chain is a fundamental objective for our growth strategy**

**65%**
OF RAW MATERIALS AND SUPPLIERS ARE MEXICAN

**610**
ROUTES PER WEEK

**233**
CITIES

# SYNERGY AND **CRITICAL MASS**

**Supporting our operation with resources, efficiencies and best practices is our way of providing competitive advantages for our brands. Response times to the restaurants are optimized, costs are reduced, and profit margins extended. We are prepared to manage the future growth of our operation.**

**The Conecta Model**
It is the supply chain cycle where we integrate all phases involved in planning, producing, distributing and managing the resources to connect and meet the needs of our stores, and as a result achieve customer satisfaction.

## Supply Chain

Our support center is the heart of our processes. It is precisely here where suppliers are selected, raw materials and basic food products are received, stored, and manufactured; orders are filled; product shipping processes and distribution take place.

The following are the processes that comprise the supply chain:

- **Planning and logistics:** In charge of organizing all phases of the chain to guarantee that processes are properly followed in a timely manner
- **Procurement**: Analyzes the commodities market; chooses supply sources; acquires assets; and implements supplier development programs
- **Manufacturing:** Prepares fresh and parbaked pizza dough; bakery; buns; pastries; sandwiches; soups; sauces; cooked dishes; and different cuts of meat
- **Distribution and logistics:** In charge of receiving, filling and transporting orders from the brands to the different restaurants
- **Quality:** Ensures product safety and quality, starting with the design, purchase, all the way to our customers' tables
- **Human Resources, Finance, and Technology:** Provide full time support and service to the 4 distribution centers

In this manner our processes are interrelated in full synchronization with a common goal: Provide all the necessary supplies to each store so the manager can focus on meeting and exceeding the expectations of each and every one of our customers.

[102-9]

**Distribuidora and Importadora Alsea (DIA)**
DIA is a fundamental part of the Shared Services Center. Through it, Alsea manages the supply chain for the brands and establishments it operates, allowing them to concentrate their efforts and attention on optimizing its operations and customer service.

DIA specializes in purchasing, importing, transporting, storing and distributing food products nationwide, whether frozen, refrigerated or dry, thus supplying all brands and establishments.

In addition to intercompany operations, ALSEA maintains manufacturing agreements and exclusive distribution with Starbucks, Vips, Italianni's, El Portón and the Domino's Pizza system in Mexico, operated by franchisees, from which we obtain additional income for the services we provide in the those agreements.

Likewise, the DIA, through inspection procedures at product receiving and ongoing audits of supplier manufacturing and distribution, we verifies that raw materials used to prepare, sell, and distribute food products comply with the highest quality standards.

The supply to our stores in Mexico and Latin America is performed through 7 distribution center in the following strategic locations:

- 4 in Mexico
- 1 in Argentina
- 1 in Chile
- 1 in Colombia

The distribution centers in Mexico and Colombia belong to Alsea; the one in Argentina and Chile are operated by third parties.

**Human Resources**

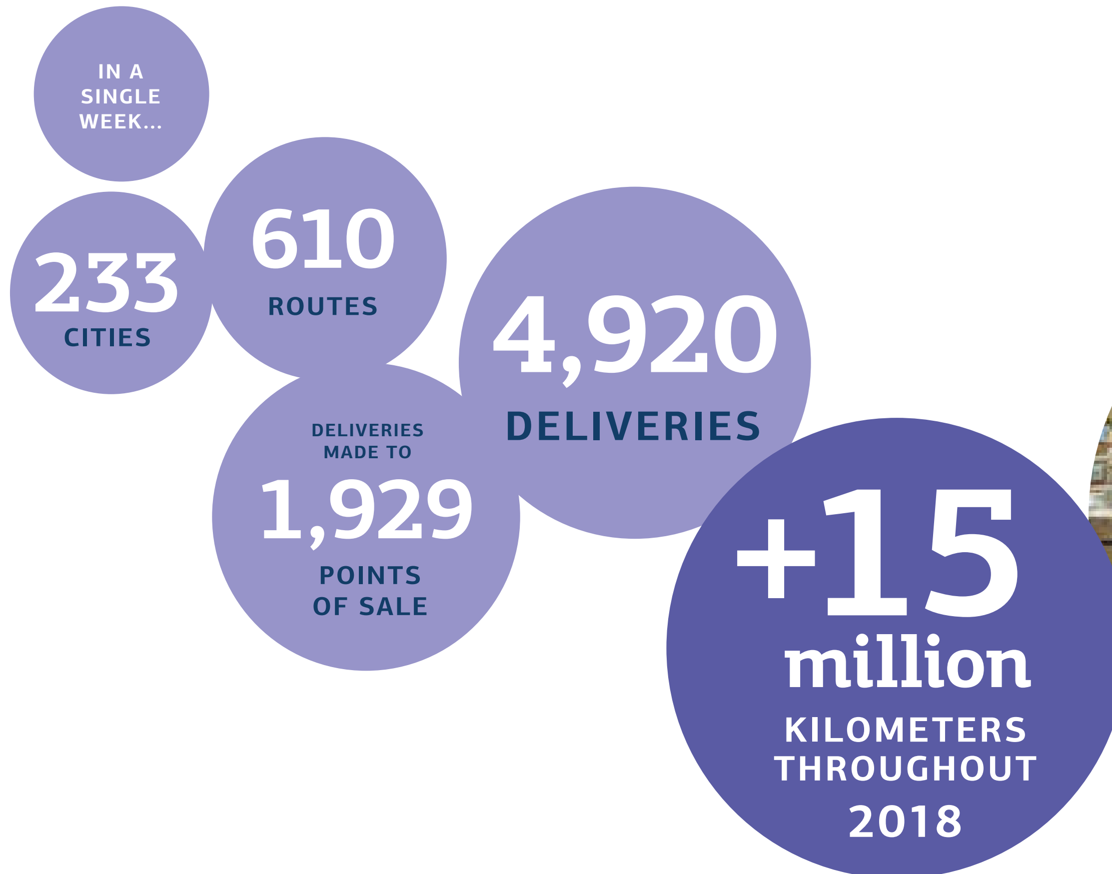
We continue committed to a safe and responsible operation with our employees, through different hygiene and safety programs and campaigns. There is a vaccination campaign for all our employees, and we maintain an ongoing training and communication program on occupational safety whose purpose is to meet the goal of "Zero Accidents".

In this item we have made considerable improvements with a downward trend in serious accidents, dropping from 42 to 32, with immediate follow up to prevent further cases and we have attended the inspections made by the Secretary of Labor.

**Quality**

This year all our Distribution Centers in Mexico have achieved the maximum score granted by Domino's Pizza International: 5 stars. In addition to this and as part of our strategy for continuous improvement to the food safety and quality programs, this year two of our four distribution centers obtained level 2 SQF certification (Safe Quality Food) which is a Food Safety Management System designed to supply organizations with a solid tool for managing food safety risks, and at the same time ensure the safety of the products for consumers through a recognized certification system for food safety.

http://seguridad-alimentaria-global.com/que-es-sqf.html



[403-2]

On the other hand, we have been recognized by Walmart with our recertification as suppliers because of our quality, safety, and social responsibility.

We have established new metrics to evaluate critical operation processes, such as the cold chain, where we accomplished 97.5% of the established goal; the control and approval of suppliers, which surpassed the goal by 4%; and global quality performance of our suppliers in Mexico, which exceeded the annual goal by two percent.

Supplier relations have improved, and as a result, the claims in PPM (defects per million opportunities, or pieces, or parts per million) for Manufacturing and Suppliers are now less.

For the first time, our restaurants and stores were audited as of the second quarter, as per the new Food Safety and Quality Index for Alsea (ICA), exceeding the goal originally established by brand in the annual plan.

**Planning**

Our brands rose to the challenge of assertive annual forecasting, surpassing the goals in general, with the exception of Domino's and Starbucks. We have worked on managing SKUs to define strategies among the brands to help reduce inventory and we reinforced information systems per delivery point, thereby achieving an 8.4% of total SKUs. We achieved a reduction of 10 days of inventory for Alsea as a whole, compared to figures recorded for 2017, due to improvements in working capital.

**Procurement**

Excellent results were achieved this year regarding inflation in prices, due to savings in food SKUs, accomplishing a benefit of 2.72 percentage points, which is equal to $214 billion, as pertains to total estimated price inflation.

Negotiation and procurement strategies for raw materials produced benefits amounting to $66 million annually, despite the increase in import tariffs. We accomplished the objective of the Vendor Agreement with 81% of our vendors, and we witnessed the results of the first global negotiation of soft drinks, as well as the negotiations with Alpura and Heineken, representing a benefit of an additional $313 million to previous agreements.

[414-1]

## Alsea Operations Center

The Center of Operations Alsea (COA) encompasses storage, distribution, and manufacturing services, all in a single place, with the purpose of optimizing restaurant operations and preserving quality and profitability.

We mitigated the impact of new import tariffs, (for key products such as cheese, pepperoni, potatoes, and prepared foods); and we surpassed working capital results through inventory reduction and production chain programs for suppliers.

Activities conducted during 2018:

- **Training:** Improvements to the training and support program for brands, to capitalize on operating experience
- **Structure:** Increases to the number of supervisors, and implementation of the "Circle of Leaders" program, to reduce personnel turnover rates
- **Operations:** Reestablish and guarantee service to stores, reduce expenses, and generate productivity. Meetings on status, with immediate attention given to opportunities; 24/7 IT service; operational continuity; support for route movement and definition; compliance with inventory production and recovery plan; and warehouse assortment, with an improvement index of 25%

Supply Chain priorities for 2019:

- Consolidate operation and guarantee consistent service
- Generate productivity and budget savings
- Maintain turnover rates of less than 5% per month, and continue with Zero Accidents strategy
- Accelerate centralized product manufacturing project
- Define service network and necessary capacities for the following five years
- Continue going forward with the Safety and Quality system
- Optimize and improve working capital
- Ensure succession planning for Directors
- Diminish effects of inflation through effective procurement strategies
- Improve S&OP (Sales & Operations Planning) • Ensure compliance with requirements to achieve DJSI certification (Dow Jones Sustainability Index) • Obtain TIF certification (Federal Inspection Type)

## ALSEA CONNECTS
# SERVICE WITH INNOVATION

Technology and innovation are two of our competitive advantages and the basis of our leadership position, enabling us to be increasingly closer to the needs of our customers.

# INNOVATION
# AND TECHNOLOGY

**At Alsea we work each day on renewal, to connect with our customers, and go beyond simple consumption. Today, hand-in-hand with technology, we listen to their preferences, we know what they want and how they want it, and we convert this into innovative products and services that are in line with their lifestyles.**

Knowing our customer profile allows us to make benefits available through different apps and electronic devices, thus reinforcing the connection between them and our brands.

Nowadays, thanks to digital apps, we are at the vanguard of taking offerings and promotions to our customers, with agility and efficiency, and therefore we continue investing in these communication tools and platforms, which have been benefitted by increasing numbers in registration and membership.

Likewise, we plan on continuing to renew our products, formats, and services to adapt them to industry trends. Our objective is to continue amazing our customers with new flavors and new proposals aimed at their preferences.

## MEXICO

### STARBUCKS

**Reserve Bar**
In April we opened our first Reserve Bar in Mexico, which was also the first to open in a coffee-producing country anywhere in the world. For the first time we offered coffee from a different coffee region in our country: Starbucks Reserve Mexico, Oaxaca, La Pluma.

The store was designed to celebrate the Mexican culture with elements produced in and inspired by the country, but without losing its natural connection with the Starbucks Reserve Roasteries. It is designed to be the stage for the Coffee Masters, representing the broadest range of knowledge regarding coffee in Starbucks, with a hands-on experience that brings to life our reserves of exquisite limited-edition coffee beans. We offer our customers the opportunity to explore coffee through taste-testing and educational seminars prepared by our Coffee Master. At this store we use traditional preparation methods that are designed exclusively to highlight the coffee reserve. It is the first establishment in Mexico to offer Nitro Cold Brew and exclusive beverages inspired by cocktails.
.

**Baked in Store**
In addition to providing the best experience in coffee drinking, in 2018 we ventured into the project of baking bread in our stores, with the goal of enhancing the food-eating experience.

We introduced freshly baked products, made on the spot, with simple yet top quality products that have an exceptional flavor.

With this concept in mind, we now offer the following variety:
- Croissant with ham and cheese, cured ham, or butter
- Chocolate filled pastry
- Fruit pastry
- Chocolate bretzel

This program began in October 2018, with the first 19 stores in Greater Mexico City, and in December, 21 stores were opened in Monterrey.

**The aroma of "recently baked bread"**
IN OUR STORES SEDUCES OUR CUSTOMERS

**Back to Flavor**

**Do you remember what it tastes like?**

With this innovation in beverages, we created an experience that creates moments of nostalgia through a 360° communication campaign.

People recalled special moments from their childhood and shared them with their family and friends, helping us to create digital engagement and a better connection with our consumers.

**Implementation of Delivery**

In 2018, we were able to extend our home delivery sales channel through the use of digital platforms (APPs) managed by companies devoted to technological development. We created a strategic alliance with Rappi in early October.

With this initiative 140 stores incorporated this service through add-ons.

VIPS

Vips changed its appearance and menu, optimizing its offering of dishes, obtaining a more fluid and comfortable design for our guests.

The menu design seeks to convey the brand experience and personality through the newer and easier to read format. We included new photographs depicting families, histories, and brand formats.

- We innovated and improved certain dishes, in keeping with our customers' preferences
- We looked to establish product consistency in all our stores
- We also added 12 new dishes

Moreover, in 2018 we launched our Vips Digital Loyalty Card, obtaining 56,315 sign-ups and over 16,000 transactions throughout the year.

**140 units**

IN MEXICO STARTED TO OFFER DELIVERY SERVICE

DOMINO'S

This year we made great strides in innovation and technology through different updates to our digital platforms, in addition to the incorporation of our WOW Rewards loyalty program. We also joined the efforts of third parties, as is the case of the Alexa app.

In 2018, over 3 million downloads of the app were made in iOS and Android, and the volume of sales from these platforms totaled 25 percent.

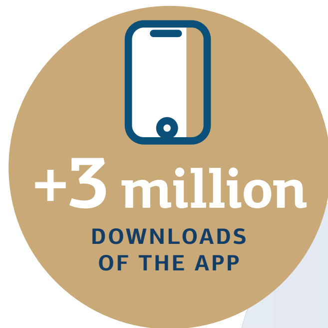
P.F. CHANG'S

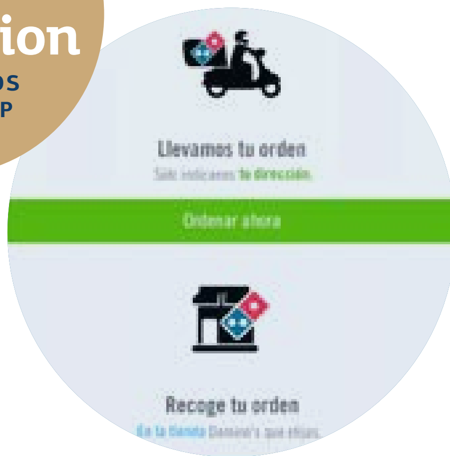
In November, our menu was improved with the launching of Asian Bowls, which consists of 23 options of bowls and ramen.

The ordering of sushi was driven with our Sushiology campaign, which combines sushi with cocktails to provide a new experience and flavor for our customers.

THE CHEESECAKE FACTORY

We created the perfect dessert for any type of celebration: The Celebration Cheesecake. This delicious dessert is inspired by funfetti cupcakes, in addition to combining the flavor of original cheesecake with layers of vanilla cake and three tasty layers of strawberry, vanilla, and chocolate; on top is a layer of cream cheese and confetti. It is undoubtedly the most festive-looking cake you've ever seen, a must during any celebration.



## SPAIN

FOSTER'S HOLLYWOOD

Foster's has been renewed and it takes on a new corporate identity. This project was a comprehensive development, achieving a strategic brand platform and new codes and shades of communication, aimed primarily and young consumers who are the target audience for the brand.

The change in image applies to all brand areas and support, maintaining brand essence within a modern and renewed format.

The stores will change their décor and ambiance, incorporating the new image with its visual codes. In 2018, one restaurant underwent the change in décor and opened its doors in July, obtaining the positive result of double-digit growth in sales.

**New products**

We have continued promoting new hamburgers, whose differential value is based on new ways to make them, providing a greater level of aspiration to the products through smoking processes or valued ingredients in the blend:

- **Smoked Burger:** Smoky flavors
- **Truffle Burger:** Beef combined with truffle oil, sautéed bletus mushrooms and other related elements

The promotional campaign was both on TV and digital, with the message "Our Foster's Hollywood Bacon & Cheese Fries are second to none".

**Developing Alexa skill orders**

The purpose of incorporating our platform to Alexa is to increase the notoriety and innovation of the brand in the casual dining sector.

CAÑAS Y TAPAS

The brand is repositioned in the market with strategies that entice consumers to experience the art of tapas, but with the values from always.

Adjustments were made to the décor, giving the brand its unique Spanish personality.

Insofar as the products are concerned, our traditional scrambled eggs dish now has the possibility of being personalized with traditional recipes from different regions in Spain.

We conducted publicity with news on openings and ad hoc events held in the restaurants, generating notoriety for the brand and communication opportunities.

Likewise, we reinforced the value of the brand with social responsibility initiatives, such as Tapa Solidarity, which involves not only our employees in the creation of the tapa, but also our guests who, with their consumption, are helping infant villages.

DOMINO'S

The greatest launch of the year was American Legends, a line of pizzas with three specialties and an abundance of proteins and cheddar cheese on the edge. This launch was supported by a 360º media campaign.

BURGER KING

This brand introduced order kiosks in 34 restaurants, producing a 5% increase in sales at the counter.

**34**
**units introduced order kiosks**

## CHILE

STARBUCKS

**New products**

- **Cookies & Cream Frappuccino:** We have brought our customers back to this delicious beverage, but this time with a new ingredient, that is, ground cookie over the drink.
- **Beverages:** We launched S'more Frappuccino, Butterscotch and Cáscara Latte, three innovative drinks accompanied by some storytelling to woo our customers over.
- **Spark:** Three beverages were developed, and they appealed to our younger consumers through a tasty proposal in sweetness and an attractive appearance: Mermaid, Galaxy, and Zombie.

P.F. CHANG'S

In 2018 we conducted different programs that contributed to an improved menu and to promoting the brand in Chile. They consisted of relaunching the sushi menu. The products were adapted to local preferences and better positioned the category, resulting in an increase in share.

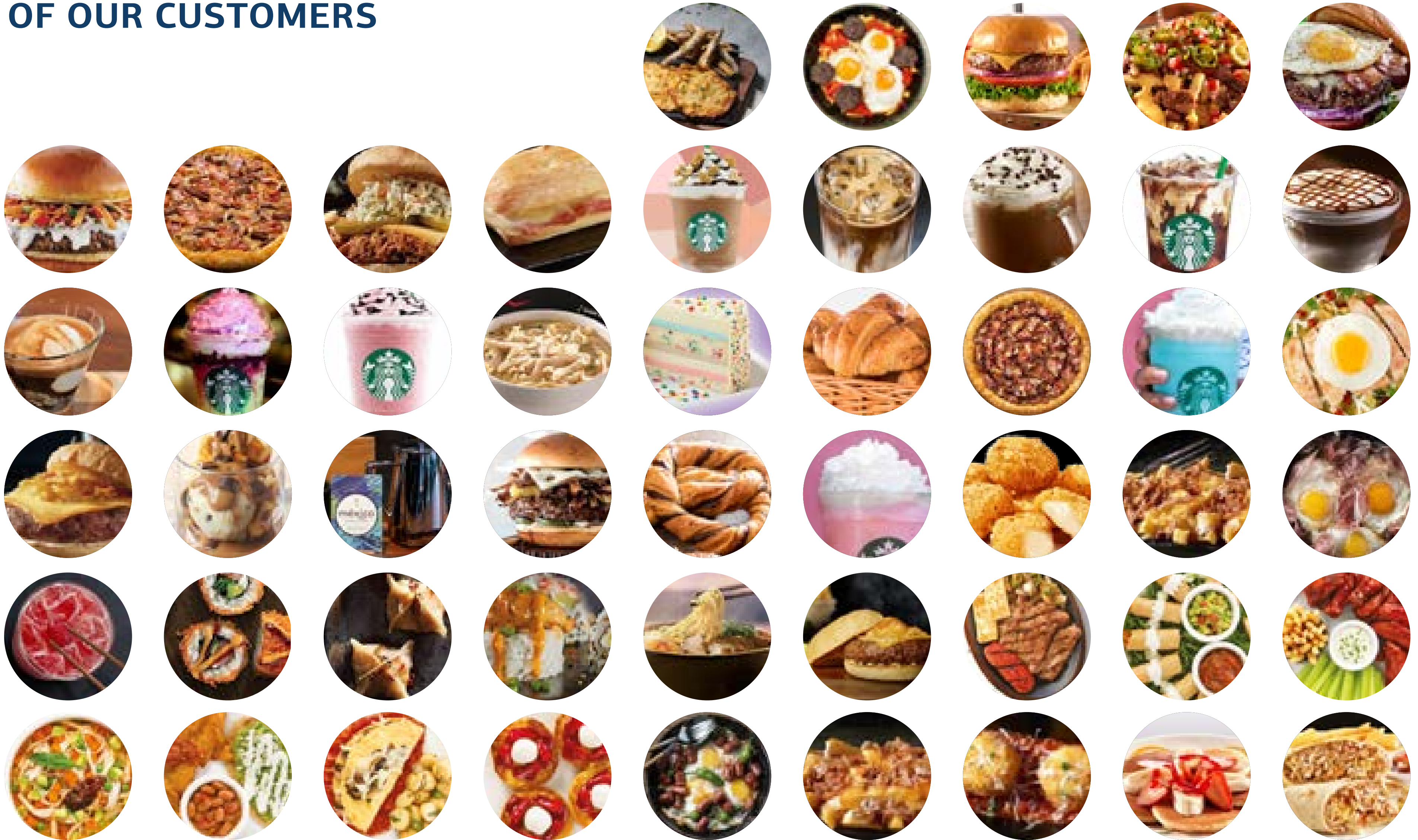
In addition, we started a mass communication campaign that allowed us to reach double-digit sales, increase the ordering of sushi, and confirmed the preference for products such as ceviche roll, guacamole and white maki.

## COLOMBIA

ARCHIES

The "Pizza Tour: Taste, Vote and Win" program was implemented for the launch of four new flavors: Dolci Prosciutto, Funghi Toscana, Mexicana, and Mozzarella Prosciutto. Likewise, we worked on improving recipes for two products from the current menu.

WE INNOVATE TO ENHANCE
**THE EXPERIENCE**
**OF OUR CUSTOMERS**



## ALSEA CONNECTS INNOVATION TO OUR VISION

**Cutting edge marketing that contributes value to our brands and positions us as leaders in the market where we operate. Connecting to our customers means being part of their lifestyle.**

**+316,000** ACTIVE MEMBERS

**+14%** TOTAL SALES

**+20%** ORDERS OVER 2017

# CUTTING EDGE **MARKETING**

**At Alsea, we consider marketing one of the primary motors for driving the growth of our brands by defining and focusing on our value propositions and by obtaining in-depth knowledge on the preferences of our customers.**

Our priority is to have our customer fully enjoy the products we offer and to have unique experiences during their visit to our establishments, in keeping with their preferences.

Therefore, we continually seek to renovate our marketing strategies in order to maintain the fresh spirit of our brands. We define programs that allow us to hear the voice of our customers, learn of their desires and needs, and then act with promotions and products that make a difference, thus contributing to the meeting of our business objectives.

## LOYALTY PROGRAMS

### MEXICO

**WOW Rewards**

Seeking to generate fidelity with our brands, we offer preferential promotions that accumulate points for having eaten with us, and they can be redeemed during the next visit to any of our Alsea Mexico units.

Through this program we obtain detailed information on the eating habits and the preferences of our customers, and therefore we generate a profile and personalize our benefits to motivate consuming in all our brands.

During this period, we accomplished the highest sales and orders within the program, with 13.9% total sales and 20.3% in orders, as compared to 2017. Moreover, we grew our active member-base by 50 percent.

This growth is due to changes made to the program, such as implementing our digital card and simplifying the process used to unify points of sale and segmentations, thereby personalizing dialogue with our customers and focusing on their preferences.

By late 2018, we began to redesign our app and website, to offer better response time to our members when loading, accessing promotions and looking for information on the benefits offered. With these initiatives, we closed 2018 with 316,000 active users and recorded 35% growth over 2017.

### My Starbucks Rewards

We continue with our loyalty program -currently with 550,000 registered users- where stars are accumulated, and offerings and benefits are provided in keeping with their profile.

Globally, the program ranks 8th in sales in Starbucks markets; it shares positions with the US, China, South Korea, Japan, Taiwan, Thailand, and England. It ranks #1 in Latin America, having the greatest number of active members.

### Digital Coupons

This year we decided to evolve the way we issue discount coupons and launch the digital version, a strategy that encompassed all brands and with which each one has total autonomy in issuing its own promotions.

The coupon book is distributed via digital means and helps obtain considerable economic savings, and in the use of paper. It reached a greater number of users, with a acomplishment of 49.6 million.

The advantage of the digital format is that smartphone users have immediate access to the promotion, and therefore the probabilities of redeeming increases. By the close of the year, we recorded $108 million in total sales with the digital coupon system.

### Marketing Shared Services

Alsea created its Shared Marketing Services with the purpose of creating synergies in operating areas. MSS oversees obtaining alliances and following through on special projects with those suppliers who provide similar services to different brands. Among the activities they conduct are:

**Media:** We centralized media services for all brands in Mexico, and we achieved savings through integrated management of advertising in traditional and digital media.

**Public Relations:** The purpose of this activity is to protect Alsea's reputation and that of its brands. Consequently, we defined complaint handling procedures and guidelines for what to do in cases of crisis and/or contingencies so as to act promptly in any of these cases. These mechanisms are headed by the Crisis Committee, who analyzes the damage and acts rapidly, clear to the final solving of the incident.

**Strategic Alliances:** Work is done in coordination with other companies to promote our products and brands, thereby generating greater transactions in stores, through the loyalty and market intelligence programs. The list of companies includes Banco Santander, Citibanamex, Bancomer, Pepsi, Heineken, Disney, and Grupo Expansión, among others.

**Choose your Burger**
For the second consecutive year, we launched four new flavors of hamburgers to attract a young target audience, primarily millennials.

**Vips Classics**
Mexican consumers list classic dishes among their favorites, something proven in the three campaigns conducted in 2018. We generated new and frequent traffic to our stores. This promotion has become a consolidation platform for our iconic Vips dishes.

**Either you win, or you win**
The goal of this promotion was to increase the average ticket in our restaurants. We offered tickets to participate in the raffling of eight cars and millions in cash prizes, for each $139 pesos spent.

**Independence Day Dishes**
Vips is where the most chiles en nogada (stuffed chiles in a creamy nut sauce) are sold in Mexico during the month of September. In addition, through advertising strategies, we highlight certain traditional dishes of the season by showing our innovation and how tasty these seasonal dishes truly are.

**Christmas Season Dishes**
From October through December we offer traditional Christmas fare, such as turkey, romeritos and codfish. During this season, the purpose was to "glorify" the craving for these dishes, thus achieving growth in sales over numbers for 2017.

**Breakfast for $75**
The most important time for Vips is breakfast; so, we offered promotions for a complete breakfast at just $75 pesos each, growing traffic, average ticket, and sales.

EL PORTÓN

**The Mayora**

A campaign used to improve the image of El Portón, using the traditional position of Mayora in Mexican kitchens. The good-humored messages alluded to popular expressions used in Mexico. With the message "El Portón is a restaurant that offers authentic Mexican dishes" the campaign improved brand perception, gained credibility, and optimized the experience at the point of sale.

DOMINO'S

**Pizza**

We defined a new proposal for Deep-Dish Pizza dough, available in medium size, improved the price, and made it available in the different sales channels.

Dominator pizza was promoted as the ideal product for parties and gatherings. We promoted it during April (when Children's Day is celebrated) and during World Cup soccer matches.

THE CHEESECAKE FACTORY

**The Cheesecake week**

For a week in the summer, we offered all cheesecake slices at half price and we also had a special promotion for Celebration Cheesecake, thus positioning this dessert as No. 1 in the preferences of our customers.

## CHILE

CHILI'S

The brand was positioned with a promotion for ribs, burgers, fajitas, and with Chili's Stadium dishes, increasing same-stores sales. We further reinforced our brand presence with three new openings: Arauco, Maipu and Plaza Oeste.

**The Art of the Burger**

A flavor creation based on five different types of hamburgers: the Bacon Perfection Burger, Pico Pork & Pickles Burger, Sunrise Burger, Pork Pineapple & Passion Burger, and the Magnificent Beef & Shrimp Burger. It became an option for all burger lovers and for those who like an ambience like Chili's.

With this campaign we increased the sale of hamburgers to more than 30%, supporting the positioning of the brand in its primary categories.

STARBUCKS

**15 years of history together**

To celebrate our 15th anniversary of Starbucks in Chile, our stores were dressed in green to invite our customers to come and share their stories with Starbucks in social medial. The best stories of the day received a month of coffees and the top three winners got a cup with their story designed by Chilean artists.

**Service month – Starbucks Run**

A new version of the race for organ donation was conducted. During 2018, our stores were the starting point, including the regions. Considerable work and effort were performed with digital influencers, who helped to spread the word and invite one and all to this event.

**Cyberbullying**

With this campaign we aimed to raise awareness on the impact that cyberbullying can cause, an issue strongly felt today in Chile. Different videos were made, becoming viral in social media and the press. Known personalities lent their image and mentioned what is going on at present and of which many parents are unaware. Also, conversions with subject-matter experts were held in our stores and they were streamed to broaden our audience.

### Starbucks Talks

During 2018, there were four dialogue sessions held on subjects such as Personal Branding and Fashion Marketing, all of which were held in our stores. They were transmitted via streaming in our social media to promote our facilities as meeting points for the exchange of ideas.

### BOG and Digital BOG

A couponing and customer attraction system. We received over 2,500 coupons in a period of three months, increasing our coupon redeeming by 5%; our accomplishment was 150,000 people, with 2,300 downloads.

BURGER KING

We retrofitted the "menu board" so our screens can be more accessible and efficient for our customers.

Three of our stores were remodeled and we had six new openings, all of them with the garden grill format, with background music and Wi-Fi. It has proven very appealing to our customers. We feel that these initiatives considerably enhance the customer experience.

We redefined our connection strategy with our customers, placing greater emphasis on digital systems through different brand activation and contingency campaigns. We improved our positioning from 5th place to 3rd in fast-food preference in Chile.

## SPAIN

### Domino's FEST

During the months of May and November we conducted Domino's FEST, in which all online purchases were offered at 50% discount. This campaign was aimed at a young audience to attract customers in the digital channel, via this appealing price offering.

# ALSEA CONNECTS THE VISION WITH THE COMMUNITY

**Due to our commitment to the community, we enacted programs that have a positive impact on the environment and make a difference.**

**+2 millions** NUTRITIONAL MEALS SERVED

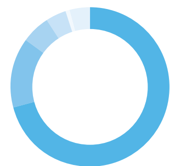
**11** DINING HALLS

**1,800** FAMILIES BENEFITED

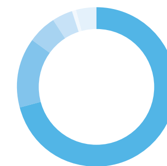
# OUR
# COMMUNITY

**Alsea is committed to having a positive impact on our community, beyond our operations. We therefore put into practice programs aimed at combating child malnutrition, promoting employability, and driving productive projects for disadvantaged groups.**

In the awareness of our role as a Socially Responsible Enterprise, we invite our employees and suppliers to become involved in actions benefiting our community. All of us who are part of the Alsea family have made great strides in nutrition, assistance during natural disasters, community development, education, and the fostering of Mexican cuisine. There is still much to be done, but we are confident we are on the right path.



**$52,493,378**
TOTAL INCOME



**$50,344,476**
TOTAL EXPENDITURES

**DONATIONS COLLECTED 2018 (%)**

| Va por mi Cuenta Campaign | 43.43 |
|---|---|
| Alsea and Subsidiaries | 31.12 |
| Employee Campaign | 14.38 |
| Other brands campaigns | 8.89 |
| Founding members | 1.71 |
| Other allies Va por mi Cuenta | 0.47 |

Additionally, in 2018 we received a donation of $7,354,431 million pesos, raised by the campaign One day for Mexico, as well as the contribution by the film "Lo que de verdad importa " for $4,771,752 million pesos

**CAUSES / EARMARKED RESOURCES (%)**

| Nutrition | 70.95 |
|---|---|
| Community development | 13.90 |
| Community participation | 5.63 |
| Education and employability | 5.08 |
| Fostering mexican cuisine | 4.00 |
| Emergencies | 0.27 |

GLOBAL FIGURES

## MEXICO

### VA POR MI CUENTA MOVEMENT

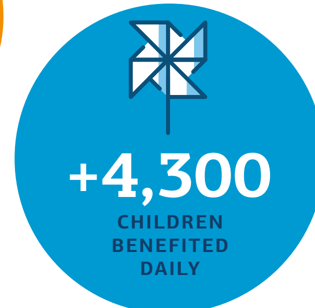
The movement Va por mi Cuenta, supported by the Alsea Foundation, inaugurated its 11th children's dining hall, the first to operate under a scholastic model. The dining hall is operated in collaboration with SEDAC I.A.P. and Comedor Santa María A.C., with the goal of providing nutritional meals for 740 children per day, between the ages of 3 and 12, who attend preschool and elementary school.

Beginning in 2012, It's on Me has been devoted to building and operating dining halls for children, called "Our Dining Hall"; the movement has served over 2,000,000 nutritional meals, benefitting more than 4,300 children each day. There have been marked improvements in their size, performance in school, and emotional aptitude thanks to the benefits of eating balanced meals suited to their age and requirements.

The results to date and our commitment to combating child malnutrition serve as motivators to continue with this program, reinforce it, obtain greater donations, and provide support to other organizations.

**Va por mi Cuenta Colombia**

The movement Va por mi Cuenta continues operating in Colombia, where 306 children have been benefitted through 6 institutions located in Medellín, Bogotá, Soacha, Bucaramanga, Cartagena and Cali, in alliance with Fundación Éxito and its program Gen Cero in the following institutions: Misioneras de Cristo Maestro, Fundación Ximena Rico Llano, Fundación Semilla y Fruto, Abc Prodein, Asociación de Mujeres Artesanas Luz y Vida, and Funsodelpo.



**Senior Citizens Program**
In August 2018, Starbucks celebrated the opening of its first store in Mexico operated 100% by a team of senior citizens between the ages of 60 and 65. This store is located in the Coyoacán Corporate Offices, in Mexico City. This initiative represents an opportunity for senior citizens to become part of the labor market.

Since 2011, Starbucks has worked hand-in-hand with INAPAM -the National Institute for Senior Citizens- on the design of a pilot program to provide suitable working conditions for this age group.

"Head to head"

**Sustainable Coffee Challenge**
Beginning in 2017, Alsea participated in the international Sustainable Coffee Challenge, whose purpose is to make coffee the primary agricultural product worldwide. Ever since then, we have developed different projects to promote the drinking of Mexican coffee and thereby help local coffee growers, protect the environment, reduce carbon footprints, and provide new coffee plants for reforestation purposes.

We also promote consuming our brands, and in 2018 all branches of El Portón incorporated into their menu organic coffee products from CESMACH, a cooperative from Chiapas, which is a regional organization with 619 small growers.

Our purchases from this cooperative represent 16% of their total income.

**Mexican Cuisine**
With the aim to continue supporting, promoting, safeguarding and rescuing Mexican cuisine, in 2018 we initiated “Head to Head between traditional cooks and mayoras from El Portón”.

It consisted of an exchange of knowledge and it also generated an atmosphere suitable to the pride of sharing what it feels like to be someone who completed a majestic creation.

As a result of this effort, the book “Mujeres de Humo” was published, With the secrets of our kitchens and the legacy of our ancestors, over 200 traditional cooks from Totonacapan, Veracruz share their work. This book is an example of our actions as a promoter and leader in the revaluing of Mexican cuisine.

### Academic Excellence Program

Alsea presented the children of our employees and the beneficiaries of the Alsea Foundation with 1,174 kits with school supplies, in recognition of their excellent academic performance and in support of their education.

### Opportunities and Employability Fund

The Alsea Foundation and Starbucks International continue rendering support to this program with the goal of helping young people in tenuous circumstances so they can have better living conditions, provide motivation for their skills, and to help them in their employability. During 2018, some seven organization were supported, benefitting more than 1,000 young people.

Welcome to the second generation of Aprendices Integra

### INTEGRA Program

This initiative is a source of great pride for us as its goal is to provide educational opportunities and employability for talented young people living in tenuous circumstances, beneficiaries of the Alsea Foundation.

With this we seek to develop values and key competencies that favor growth on the job for young people, thereby creating a seedbed of valuable talent committed to the future of Alsea, and at the same time helping to reinforce the leadership of its members by guiding and training young people.

Three fundamental roles have been defined: the role of trainee, who is the candidate; the integrator, who has the trainee as his charge and is responsible for his/her training; and lastly, the integrator sponsor, who is in charge of the overall development of the trainee, as well as his/her integration with Alsea and its brands.

The trainee participates for four years with the organization, during which said trainee collaborates in different areas that are suitable to his/her profile, career, and experience. In addition, during this time the trainees will learn Alsea values and develop different labor competencies that are highly valued on the market.

Trainees also receive a 100% scholarship to one of several prestigious universities in the county.  We have currently achieved the participation of two generations, which totals 17 trainees.

## Our Materiality

Each year we develop our overall report where we consolidate information for the period comprising January 1st to December 31st. This year we used the Global Reporting Initiative -GRI- as a reporting standard.

The content is based on a materiality analysis that Alsea conducted in 2017, and which is valid for two years. Said analysis identified stakeholders for our organization, as well as the interests and relevant expectations for both parties.

[102-31, 102-33, 102-34, 102-44, 102-46, 102-47, 102-50, 102-51, 102-52, 103-1]

Based on GRI guidelines, a determination was made regarding subjects that qualify as material aspects and which were considered when preparing this annual report, and also to define action programs within our Sustainability Model.

The graph illustrates the material aspects as per their importance, the maturity of the stakeholders with regards to the sector, and the classification of said stakeholders as regards Alsea.

Those aspects deemed material for Alsea are as follows:

- Corporate Social Responsibility Management
- Risk management
- Ethics and integrity
- Corruption / bribery / transparency
- Brand management
- Financial matters
- Operations
- Product development / services / product responsibility
- Customer relations management
- Environmental policies / Environmental management system
- Materials
- Energy ecoefficiency
- Climate change and other atmospheric emissions
- Talent attraction and retention
- Human capital development
- Occupational health and safety
- Human rights
- Social impact
- Supplier standards

The evaluation considered those aspects which could represent a risk for the organization, which are defined as urgent issues and which receive immediate attention to mitigate the risk. These aspects include **waste management** and **water resource management,** receiving constant attention since 2017.

**Corporate governance and diversity and equal opportunities** are subjects that Alsea must always keep in mind and never ignore due to the level of importance they represent for the organization.

As a complement to the analysis of materiality, we consulted with two of our primary stakeholders:

Employees: from whom we received satisfactory feedback, conveying their interest in the following subjects:

- Labor practices
- Equal pay for men and women alike
- Human capital development
- Occupational health and safety
- Human rights
- Compliance with international labor standards
- Follow up on cases of discrimination and the measures taken
- Training
- Labor environment
- Health and safety
- Ethics

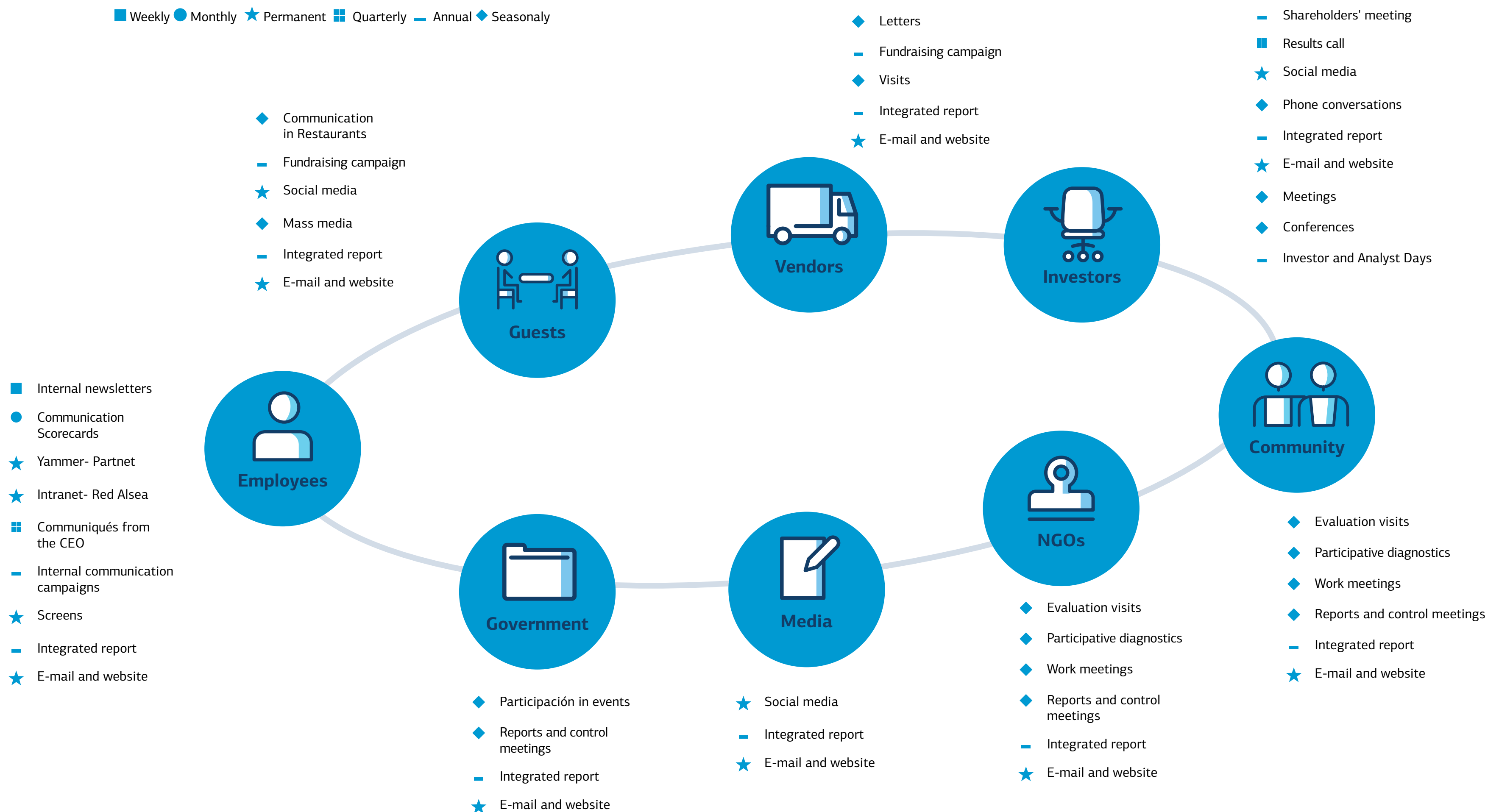
Customers: who expressed an interest in the following subjects:

- Brand / product management
- Quality
- Price
- Compliance with quality standards

## Our stakeholders

Alsea is committed to its stakeholders because they are the base of our growth in the market. We keep our eyes and ears open to knowing their needs and expectations in common and serving them. That is why we implement different mechanisms to know their opinions, directly, clearly, and in a timely manner.

It is very important for us to maintain open communication with our customers, suppliers, employees, investors, the government, the authorities, the community, and any other organization which Alsea can impact, either positively or negatively. Connecting with our stakeholders is an important element to building a solid future.




[102-21, 102-40, 102-42, 102-43, 102-44]

# ETHICS AND
# CORPORATE GOVERNANCE

**At Alsea we know that acting ethically and responsibly is part of our Culture and the foundation so our business can generate value for our shareholders, employees, customers, and communities where we operate. Our corporate governance follows the very best standards in ethics and operating policies to ensure the correct performance by our Committees and Board of Directors, and we supervise effectiveness and always keep informed of any regulatory changes and demands made by our stakeholders regarding transparency and accountability.**

## ETHICS

The values we hold in the Alsea Culture allow us to instill in our employees the value of commitment and service for our customers, achieving success in their daily performance. This is accomplished with a Winning Attitude, Involved Leadership, Amazing Service, Collaborative Spirit, and Attention to Details.

Through our Code of Ethics, we define lines of conduct that are followed by our employees in their daily activities, in any geographic location where they work. This extends to our customers and suppliers according to the Strategic Plan that Alsea uses to generate value.

Each time someone joins our team, we present the tools developed by Alsea to ensure ethical compliance and the building of our value-based Culture. During the onboarding sessions we present and have them sign the Code of Ethics and the use of the Hotline for claims, our policies on anticorruption, conflict of interests, and the prevention of money laundering.

Alsea has an Ethics Committee whose mission is to attend to events or conditions that represent conflicts or any violation by our employees, brands, or the Company itself, or any type of noncompliance regarding the guidelines found in our Code of Ethics.

Given our position of neutrality regarding politics, Alsea does not provide any type of funding to political parties and/or their supporting agencies.

- Equal opportunities for all
- Prohibited to accept gifts
- Confidential information management
- Harassment-free work environment
- Care of our tools
- Compliance with rules and regulations
- Conflict of interests
- The way we treat customers
- Care for the environment
- Measures for not committing fraud
- Transparent business practices
- Occupational safety

[102-16, 102-17, 410-1, 412-2, 415-1, PM1, PM10]

## ALSEA HOTLINE

In our awareness of the need to identify conducts or situations that place our customers, employees, and suppliers at risk, we have implemented the Hotline program, which is operated by Deloitte, and offers the opportunity to make confidential reports to this independent third party, who in turn provides objectivity and transparency for the process of attending to and solving the situations reported.

Our customers also have the opportunity through this program of reporting service deficiencies regarding any of our brands, all with the purpose of improving customer experience and earning their preference.

In 2018, we received 1,180 claims, of which 10 were suppliers, 94 from customers, and the rest anonymous. At the close of the year, 90% of the claims were served, two are still under investigation, and one was discarded due to lack of information.

The percentage of claims increased 20.65% as compared to the previous year. This is due to acquisition transition and operation stabilization processes regarding Archies. Other reports had to do with coercion, conflict of interests, breach of trust, fraud, and theft. Alsea defines programs to reinforce communication options with customers, communication campaigns to stress the Hotline system with employees and suppliers, thus channeling and attending to complaints quickly and objectively.

In keeping with our process standardization worldwide, we are relaunching our Hotline system in Brazil.

For greater information on the Code of Ethics, visit this website: http://www.alsea.net/relacion-con-inversionistas/codigo-de-etica

## ANTICORRUPTION CULTURE

Alsea is firmly committed to performing and doing business based on ethics, integrity, transparency, and honesty. We categorically prohibit any form of corruption or bribery, in both the private and public sectors.

Our Internal Control department oversees compliance with anticorruption obligations. It is in charge of risk management, attending to and preventing acts of corruption, and following up on our claims hotline.

In 2018 we created the Anticorruption Policy for Alsea; dissemination was conducted via the eLearning platform. Currently, 82% of support center employees have completed the program online, and in 2019 the course will be made available to 100% of our employees.

To reinforce the subject of anticorruption and the Code of Ethics guidelines, our employees reiterate their commitment to the Company by signing their acceptance of and adherence to the Code and the anticorruption policy when hired, promoted, or when said code or policy undergoes any changes.

Throughout the year we send communication reinforcing the Anticorruption policy and the use of the Hotline system, and during certain times of the year, like Christmas, we reinforce the policy on the prohibition of accepting gifts from suppliers.

The Code of Ethics will be extended to all other countries where we operate. It is currently in force only in Spain.

[201-1, 205-1, 205-2, 205-3, 418-1 PM 10]

## DATA PROTECTION

We are fully aware of the existing risks posed by the use of personal data, and therefore we implemented security measures pursuant to current legislation, which prevent the risk of confidentiality, integrity, and information availability.

The privacy control and management for our customers is overseen by those directly responsible for the internal points of contact. In addition, we provide ongoing training on the subject to our employees via work plans and the continuous improvement process of the organization.

As of yet we have received no complaints for noncompliance; however, we continue reinforcing data protection monitoring and management practices within our brands, plants, DCs, and corporate offices.

Alsea recognizes how important it is to properly handle and protect the personal information obtained from individuals, regardless of whether they are customers, suppliers, legal representatives or even our own employees. We are also aware of the risks and responsibility inherent to the use of this data.

Consequently, we are continuously working on the implementation of security measures aligned with current legislation and full compliance with principles and duties regarding the protection of personal data.

Privacy control and management is overseen by an internal area known as the Department of Personal Data Privacy, and through our notice on privacy we inform our customers of everything pertaining to the handling of their data and their right to exercise ARCO (access, amend, cancel, and oppose).

Moreover, we provide ongoing training each year to our employees, both in operation and stores and in our Support Center. This training is based on work plans and constant processes aimed at continuous improvement for the organization.

These actions are currently reflected in our compliance levels and the reputation of the organization. To date, no cases of noncompliance have been filed. However, we are constantly reinforcing our practices on data protection monitoring and management, for our brands, plants, DCs and corporate offices.

https://www.alsea.net/aviso-de-privacidad
https://www.alsea.net/inversionistas/contacto
https://www.alsea.net/sustentabilidad/contacto
https://www.alsea.net/sala-de-prensa/contacto
http://www.alsea.net/haz-carrera-en-alsea
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https://www.alsea.net/franquicias/contacto

[415-1, 418-1, PM10]

## BOARD OF DIRECTORS

Our Board is known for its actions and soundness. It consists of 11 members, of which one is a woman. We have opened the doors to a new generation with the addition of Pablo Torrado who, with his experience in Starbucks Corporation, will contribute with a fresh vision on the preferences and demands of the younger generations.

For the Board of Directors to be able to meet, a minimum of 25% of the Directors must be present; compensation for the members of the board is fixed, based on attendance to Board meetings and Committees to which they may belong, in addition to involvement in deliberations and efficiently made decisions.

In support of the Board of Directors and pursuant to the new Securities Market Law, we have intermediary bodies -the Audit Committee and the Corporate Practices Committee- whose members are Independent Directors and whose responsibility is to assist the Board of Directors in the performance of its duties. The Chairman of the Board is Alberto Torrado Martínez, who is a statutory related Director.

The makeup of the Board of Directors is as follows:

**Alberto Torrado**
CEO

Statutory Directors

**Alberto Torrado**
Chairman of the Board
**Cosme Torrado**
**Armando Torrado**
**Fabián Gosselin Castro**
**Federico Tejado Bárcena**

Independent Directors

**Julio Gutiérrez Mercadillo**
**Raúl Méndez Segura**
**Iván Mogel Kuri**
**León Kraig Eskenazi**
**Adriana Noreña**

Related Directors

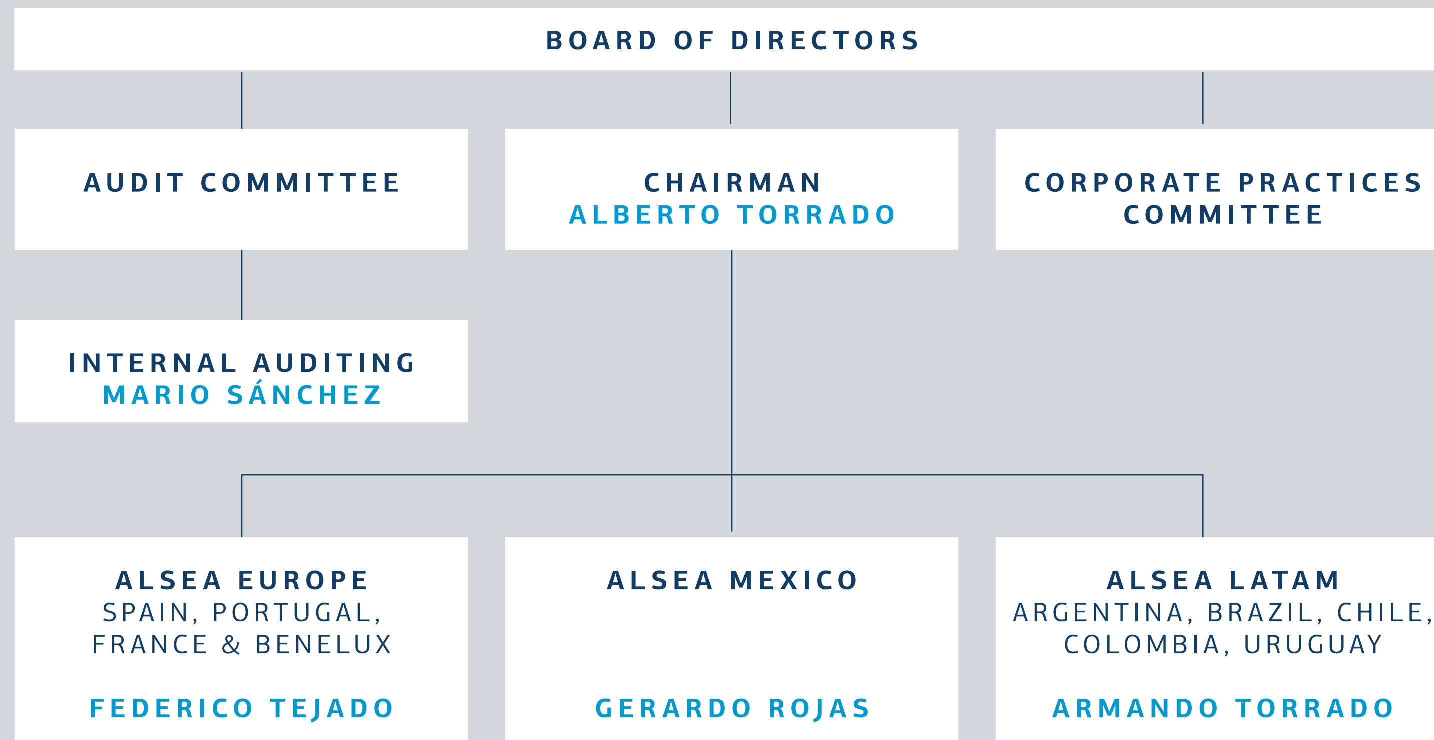
**Pablo Torrado**
Related Member

Technical Secretary

**Xavier Mangino**
Díaz de Rivera y Mangino, S.C.

[102-5, 102-18, 102-19, 102-20, 102-22, 102-23]

## ORGANIZATIONAL STRUCTURE




[102-18, 102-19, 102-20, 102-22, 102-23]

## AUDIT COMMITTEE

Duties and Responsibilities include:

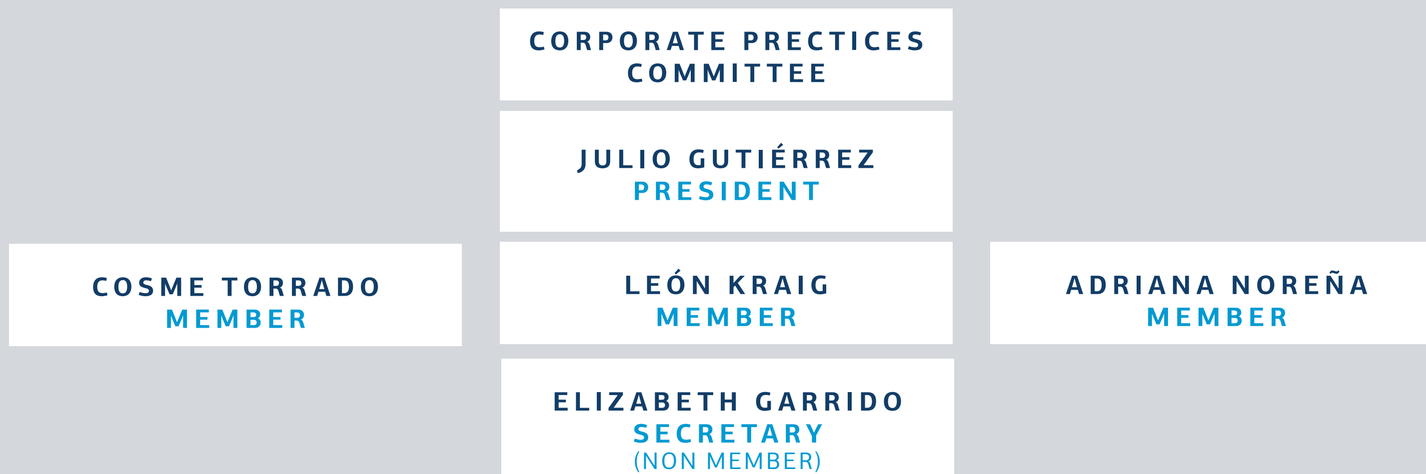
- Making recommendations to the Board of Directors regarding candidates for independent auditors of the Company, hiring conditions, scope of professional work to be done, and overseeing the same.
- Being the channel of communication between the Board of Directors and the independent auditors, as well as ensuring the independence and objectivity of the latter.
- Reviewing the work program, letters of observations, the reports from internal and independent auditors, and informing the Board on the results.
- Meeting periodically with the internal and independent auditors without the presence of Company officials, to know their comments and observations regarding the status of the audits.
- Providing an opinion to the Board of Directors on the policies and criteria used in preparing financial information and the issuing process, assuring its reliability, quality, and transparency.
- Contributing to the defining of overall internal control guidelines, those of internal audit, and evaluating its effectiveness.
- Verifying adherence to mechanisms established for control of any risks which the Company may face.
- Coordinating the work of the internal auditor, and that of the Statutory auditor, if the case.
- Assisting in the creation of policies governing transactions with related parties.
- Analyzing and evaluating transactions with related parties, to make recommendations to the Board of Directors.
- Deciding on the hiring of third-party experts who issue their opinion on transactions with related parties or any other matters that enable the proper execution of their duties.
- Verifying compliance with the Code of Ethics and with the use of the system for reporting incorrect actions and the proper protection of any informants.
- Assisting the Board of Directors for the analysis of contingency plans and data recovery.
- Verifying the existence of proper mechanisms needed to ensure that the Company is in full compliance with all legal provisions.

[102-18, 102-19, 102-22]

## CORPORATE PRACTICES COMMITTEE

Duties and Responsibilities include:

- Making suggestions to the Board of Directors on criteria for appointing or removing the CEO and/or any top-level executives.
- Advising the Board of Directors on evaluation and compensation criteria for the CEO and top-level executives.
- Recommending to the Board of Directors the criteria for determining separation pay for the CEO and/or any top-level executives.
- Recommending compensation criteria for the Directors.
- Analyzing any proposal made by the CEO on the structure and compensation criteria for Company personnel.
- Analyzing and presenting to the Board of Directors, for their approval, the declaration for deeming the Company socially responsible, the Code of Ethics, and the system for reporting incorrect actions and the proper protection of any informants.
- Analyzing and suggesting to the Board of Directors its approval of the formal succession system of the CEO and any top-level executives, and verifying compliance with the same.
- Reviewing and suggesting to the Board of Directors the strategic vision for the Company, to ensure its stability and permanence through time.
- Analyzing overall guidelines presented by the CEO on determining the strategic plan for the Company and following up on its implementation.
- Evaluating any investment and funding policies suggested by the CEO and providing an opinion to the Board of Directors.
- Giving an opinion on the premises for the annual budget present by the CEO and following up on its use and corresponding control system.
- Evaluating mechanisms presented by the CEO on the identification, management, and control of any risks the Company may face, and present an opinion to the Board of Directors.
- Evaluating criteria presented by the CEO on revealing any risks faced by the Company, and present an opinion to the Board of Directors.

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# Alsea, S.A.B. de C.V. and Subsidiaries
# Independent Auditors' Report and Consolidated Financial Statements for 2018, 2017 and 2016

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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, 2018, 2017 and 2016, 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying 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, 2018, 2017 and 2016, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board.

*Basis for Opinion*

We conducted our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the 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) together with the Code of Ethics 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 with the 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 stores. 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, 2018, 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.

*Acquisition of Sigla*

In December 2018, the Entity concluded the acquisition of Sigla, S.A. for which Food Service Project, S.L. (Grupo Zena) (operator in Spain) acquired 100% of the common stock of Sigla, S.A., an entity established under the laws of Spain, which together with its subsidiaries is known as Grupo VIPS. The consideration paid for the acquisition was €500 million after debt payable in cash (equivalent to MX $11,411,369 (thousand)). At the same time, the previous shareholders of Grupo VIPS, the Arango family and ProA Capital, reinvested €75 million (equivalent to MX $1,711,703 (thousand)), through a capital increase in Grupo Zena, after which they became minority shareholders. There is a risk that the Entity may not adequately record the initial allocation of the acquisition cost of the values of the net assets acquired and they are in a measurement phase according to IFRS 3, *Business Combination*.

Our audit procedures to cover the risk derived from the acquisition of Sigla, included:

Reviewing the support documentation for the acquisition; reviewing the cash flow from this transaction; reviewing the preliminary allocation of the acquisition cost of the values of the net assets acquired and the fact they are in a measurement phase according to IFRS 3, and reviewing the disclosures included in Note 19 to the consolidated financial statements. The results of our audit tests were reasonable.

*Option to sell the noncontrolling interest of Grupo Zena*

We assumed a risk of material misstatement related to recognition and valuation of the options to sell the noncontrolling interest of Grupo Zena which give rise to such risks.

In October 2014, the Entity acquired Grupo Zena; as a result, Grupo Zena has the right to sell its noncontrolling interest, for which the deadline to perform the sale is October 2018, which was terminated and formalized through a new agreement to be made in April 2019. In compliance with IFRS 9, Financial Instruments, the present value of the estimated debt that will be liquidated at the time the sale option is exercised should be recorded according to the clauses of the new contract.

As discussed in the key matter *Acquisition of Sigla*, the majority stockholders of Grupo Zena have the right to sell their noncontrolling interest, with a deadline to complete the sale in 2025, which will take place through the delivery of a variable number of shares of Alsea. In compliance with IFRS 9, *Financial Instruments*, it should be recorded as a financial derivative.

Our audit procedures to cover the risk derived from the option to sell the noncontrolling interest included:

Reviewing the new agreements established between the investors; reviewing the correct accounting record to recognize the revaluation of the financial liability, and recognition of the financial derivative and reviewing the disclosures included in Note 19 to the consolidated financial statements, transactions originated from such acquisitions. The results of our audit tests 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 IFRSs, 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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and asses 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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. Juan Carlos Reynoso Degollado
Mexico City, Mexico
April 1, 2019

# Consolidated Statements of Financial Position

At December 31, 2018, 2017 and 2016
(Figures in thousands of Mexican pesos)

| Assets | Notes | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash and cash equivalents | 6 | $ 1,987,857 | $ 1,540,403 | $ 2,547,842 |
| Customers, net | 7 | 814,032 | 920,264 | 708,380 |
| Value-added tax and other recoverable taxes | | 286,360 | 358,222 | 363,120 |
| Other accounts receivable | | 211,086 | 330,324 | 245,258 |
| Inventories, net | 8 | 2,120,208 | 2,009,779 | 1,575,363 |
| Non-current assets classified as held for sale | | 70,340 | 87,236 | - |
| Advance payments | 9 | 404,969 | 411,563 | 402,190 |
| Total current assets | | 5,894,852 | 5,657,791 | 5,842,153 |
| **Long-term assets** | | | | |
| Guarantee deposits | | 678,260 | 414,909 | 362,618 |
| Investment in shares of associated companies | 14 | 14,296 | - | 1,035,975 |
| Store equipment, leasehold improvements and property, net | 10 | 19,167,225 | 15,772,479 | 13,673,445 |
| Intangible assets, net | 11 and 16 | 25,822,831 | 15,358,006 | 15,215,336 |
| Deferred income taxes | 20 | 2,764,884 | 2,348,434 | 2,068,996 |
| Total long-term assets | | 48,447,496 | 33,893,828 | 32,356,370 |
| Total assets | | $ 54,342,348 | $ 39,551,619 | $ 38,198,523 |

| Liabilities and stockholders' equity | Notes | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| **Current liabilities** | | | | |
| Current maturities of long-term debt | 17 | $ 2,588,266 | $ 1,087,466 | $ 1,107,238 |
| Current maturities of financial lease liabilities | 12 | 6,799 | 6,799 | 6,799 |
| Suppliers | | 4,457,901 | 3,960,806 | 3,901,972 |
| Factoring of suppliers | | 757,976 | 573,097 | 239,907 |
| Accounts payable and accrued liabilities | | 679,767 | 445,594 | 669,249 |
| Accrued expenses and employee benefits | | 3,087,617 | 3,195,217 | 2,531,885 |
| Option to sell the noncontrolling interest | 19 | 2,506,006 | 3,280,064 | - |
| Income taxes | | 472,175 | 125,512 | 289,484 |
| Taxes arising from tax consolidation | 20 | - | 19,892 | 22,946 |
| Total current liabilities | | 14,556,507 | 12,694,447 | 8,769,480 |
| **Long-term liabilities** | | | | |
| Long-term debt, not including current maturities | 17 | 16,038,416 | 6,693,454 | 9,743,806 |
| Non-current financial lease liabilities | 12 | 284,375 | 294,644 | 300,835 |
| Obligation under put option of non-controlling interest | 19 | - | - | 3,185,096 |
| Debt instruments | 18 | 6,983,244 | 6,980,452 | 3,988,845 |
| Other liabilities | | 802,211 | 122,711 | 67,524 |
| Taxes arising from tax consolidation | 20 | - | - | 18,846 |
| Deferred income taxes | 20 | 2,073,713 | 1,966,100 | 1,887,473 |
| Employee retirement benefits | 21 | 151,988 | 196,685 | 109,166 |
| Total long-term liabilities | | 26,333,947 | 16,254,046 | 19,301,591 |
| Total liabilities | | 40,890,454 | 28,948,493 | 28,071,071 |
| **Stockholders' equity** | 23 | | | |
| Capital stock | | 478,749 | 478,749 | 478,749 |
| Premium on share issue | | 8,625,720 | 8,625,720 | 8,625,720 |
| Repurchased shares | | (1,469) | (2,880) | (2,150) |
| Retained earnings | | 3,906,447 | 3,607,287 | 3,123,193 |
| Reserve for repurchase of shares | | 480,169 | 260,384 | 320,231 |
| Reserve for obligation under put option of non-controlling interest | 19 and 23 | (2,013,801) | (2,673,053) | (2,673,053) |
| Other comprehensive income items | | 97,337 | (814,647) | (758,686) |
| Stockholders' equity attributable to the controlling interest | | 11,573,152 | 9,481,560 | 9,114,004 |
| Non-controlling interest | 24 | 1,878,742 | 1,121,566 | 1,013,448 |
| Total stockholders' equity | | 13,451,894 | 10,603,126 | 10,127,452 |
| Total liabilities and stockholders' equity | | $ 54,342,348 | $ 39,551,619 | $ 38,198,523 |

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Income

For the years ended December 31, 2018, 2017 and 2016
(Figures in thousands of Mexican pesos)

| | Notes | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Net sales | 26 | $ 46,156,590 | $ 42,529,121 | $ 37,701,867 |
| Cost of sales | 27 | 14,187,508 | 12,923,189 | 11,779,630 |
| Leases | 12 | 3,944,744 | 4,031,877 | 3,274,251 |
| Depreciation and amortization | | 3,114,728 | 2,751,675 | 2,388,235 |
| Other operating costs and expenses | 28 | 21,648,748 | 19,635,132 | 17,382,096 |
| Other (income) expenses, net | 29 | (32,724) | (527,348) | 110,651 |
| Interest income | | (56,526) | (44,925) | (37,060) |
| Interest expenses | | 1,627,938 | 1,307,406 | 881,643 |
| Changes in the fair value of financial instruments | 19 | (114,806) | 94,968 | 407,768 |
| Exchange (gain) loss, net | | (636) | 269,133 | (73,193) |
| | | 1,837,616 | 2,088,014 | 1,587,846 |
| Equity in results of associated companies | 14 | - | (437) | 67,877 |
| Income before income taxes | | 1,837,616 | 2,087,577 | 1,655,723 |
| Income tax expense | 20 | 698,294 | 835,428 | 529,233 |
| Consolidated net income from continuing operations | | $ 1,139,322 | $ 1,252,149 | $ 1,126,490 |
| Net income for the year attributable to: | | | | |
| Controlling interest | | $ 953,251 | $ 1,089,498 | $ 996,471 |
| Non-controlling interest | | $ 186,071 | $ 162,651 | $ 130,019 |
| **Earnings per share:** | | | | |
| Basic and diluted net earnings per share from continuing (cents per share) | 25 | $ 1.14 | $ 1.31 | $ 1.19 |
| Basic and diluted net earnings per share from continuing operations (cents per share) | 25 | $ 1.14 | $ 1.31 | $ 1.19 |

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Other Comprehensive Income

For the years ended December 31, 2018, 2017 and 2016
(Figures in thousands of Mexican pesos)

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Consolidated net income | $ | 1,139,322 | $ | 1,252,149 | $ | 1,126,490 |
| Items that may be reclassified subsequently to income: | | | | | | |
| Valuation of financial instruments, net of income taxes | | 149,109 | | (29,243) | | (94,821) |
| Remeasurement of defined benefit obligation, net of income taxes | | 26,887 | | (64,213) | | - |
| Inflation effect, net of income taxes | | 545,766 | | - | | - |
| Cumulative translation adjustment, net of income taxes | | 190,222 | | 37,495 | | 72,739 |
| | | 911,984 | | (55,961) | | (22,082) |
| Total comprehensive income, net of income taxes | $ | 2,051,306 | $ | 1,196,188 | $ | 1,104,408 |
| Comprehensive income for the year attributable to: | | | | | | |
| Controlling interest | $ | 1,865,235 | $ | 1,033,537 | $ | 974,389 |
| Non-controlling interest | $ | 186,071 | $ | 162,651 | $ | 130,019 |

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2018, 2017 and 2016
(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 | Inflation effect | Valuation of financial instruments | Cumulative translation adjustment | Remeasurement of defined benefit obligation | Total controlling interest | Non-controlling interest | Total stockholders' equity |
| Balances at January 1, 2016 | $ 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 |
| Repurchase of shares (Note 23a) | - | - | (2,880) | (338,644) | - | - | - | - | - | - | - | (341,524) | - | (341,524) |
| Sales of shares (Note 23a) | - | - | 2,150 | 278,797 | - | - | - | - | - | - | - | 280,947 | - | 280,947 |
| Dividend paid (Note 23a) | - | - | - | - | - | - | (567,763) | - | - | - | - | (567,763) | (159,616) | (727,379) |
| Other movements | - | - | - | - | - | - | (37,641) | - | - | - | - | (37,641) | 105,083 | 67,442 |
| Comprehensive income | - | - | - | - | - | - | 1,089,498 | - | (29,243) | 37,495 | (64,213) | 1,033,537 | 162,651 | 1,196,188 |
| Balances at December 31, 2017 | 478,749 | 8,625,720 | (2,880) | 260,384 | (2,673,053) | 100,736 | 3,506,551 | - | (211,766) | (538,668) | (64,213) | 9,481,560 | 1,121,566 | 10,603,126 |
| Repurchase of shares (Note 23a) | - | - | (1,469) | (150,735) | - | - | - | - | - | - | - | (152,204) | - | (152,204) |
| Sales of shares (Note 23a) | - | - | 2,880 | 370,520 | - | - | - | - | - | - | - | 373,400 | - | 373,400 |
| Dividend paid (Note 23a) | - | - | - | - | - | - | (654,091) | - | - | - | - | (654,091) | (66,052) | (720,143) |
| Acquisition of business and sale option for uncontrolled participation (Note 23) | - | - | - | - | 659,252 | - | - | - | - | - | - | 659,252 | 613,029 | 1,272,281 |
| Other movements | - | - | - | - | - | - | - | - | - | - | - | - | 24,128 | 24,128 |
| Comprehensive income | - | - | - | - | - | - | 953,251 | 545,766 | 149,109 | 190,222 | 26,887 | 1,865,235 | 186,071 | 2,051,306 |
| Balances at December 31, 2018 | $ 478,749 | $ 8,625,720 | $ (1,469) | $ 480,169 | $ (2,013,801) | $ 100,736 | $ 3,805,711 | $ 545,766 | $ (62,657) | $ (348,446) | $ (37,326) | $ 11,573,152 | $ 1,878,742 | $ 13,451,894 |

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Cash Flows

For the years ended December 31, 2018, 2017 and 2016
(Figures in thousands of Mexican pesos)

| | Notes | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Consolidated net income | | $ 1,139,322 | $ 1,252,149 | $ 1,126,490 |
| Adjustment for: | | | | |
| Income taxes | | 698,294 | 835,428 | 529,233 |
| Equity in results of associated companies | | - | 437 | (67,877) |
| Interest expense | | 1,627,938 | 1,307,406 | 881,643 |
| Interest income | | (56,526) | (44,925) | (37,060) |
| Disposal of store equipment, leasehold improvements and property | | 87,674 | 181,099 | 14,490 |
| Impairment goodwill | 16 | - | 3,647 | - |
| Profit on sale of fixed assets | | (70,374) | - | - |
| Gain on disposal of investment of associated - Grupo Axo | 29 | - | (608,817) | - |
| Changes in the fair value of financial instruments | | (114,806) | 94,968 | 407,768 |
| Depreciation and amortization | 10 and 11 | 3,114,727 | 2,751,675 | 2,388,235 |
| | | 6,426,249 | 5,773,067 | 5,242,922 |
| Changes in working capital: | | | | |
| Customers | | 217,292 | (211,884) | (16,072) |
| Other accounts receivable | | 57,151 | (85,066) | 24,027 |
| Inventories | | 57,253 | (434,416) | (145,375) |
| Advance payments | | (102,897) | (61,664) | (38,902) |
| Suppliers | | (1,822) | 58,834 | 696,528 |
| Factoring of suppliers | | 184,879 | 333,190 | 239,907 |
| Accrued expenses and employee benefits | | 343,403 | (75,192) | 744,117 |
| Income taxes paid | | (709,011) | (731,587) | (967,746) |
| Other liabilities | | 539,551 | 46,794 | (55,514) |
| Labor obligations | | (6,287) | 23,306 | 580 |
| Net cash flows provided by operating activities | | 7,005,761 | 4,635,382 | 5,724,472 |

See accompanying notes to the consolidated financial statements.

(Continued)

| | Notes | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| **Cash flows from investing activities:** | | | | |
| Interest collected | | 56,526 | 44,925 | 37,060 |
| Store equipment, leasehold improvements and property | 10 | (4,253,224) | (4,695,671) | (4,048,244) |
| Intangible assets | 11 | (356,929) | (511,716) | (550,998) |
| Disposal of investment of associated - Grupo Axo | | - | 1,607,410 | - |
| Acquisition in investment in shares of associated companies | | (14,296) | - | - |
| Acquisitions of business, net of cash acquired | 1 and 15 | (10,997,653) | - | (293,027) |
| Net cash flows used in investing activities | | $ (15,565,576) | $ (3,555,052) | $ (4,855,209) |
| **Cash flows from financing activities:** | | | | |
| Bank loans | | $ 21,515,017 | $ 1,160,197 | $ 5,820,156 |
| Repayments of loans | | (9,470,775) | (4,230,321) | (1,036,032) |
| Issuance of debt instruments | 1 and 18 | - | 3,000,000 | - |
| Payments for debt instruments | | - | - | (2,500,000) |
| Interest paid | | (1,627,938) | (1,307,406) | (881,643) |
| Dividends paid | | (720,143) | (727,379) | (689,949) |
| Cash received non-controlling stake | | 637,157 | - | - |
| Payments for financial leasing | | (10,269) | (6,191) | (128,767) |
| Repurchase of shares | | (152,204) | (341,524) | (250,498) |
| Sigla debt payment | | (1,690,050) | - | - |
| Sales of shares | | 373,400 | 280,947 | 63,629 |
| Net cash flows (used in) provided by financing activities | | 8,854,195 | (2,171,677) | 396,896 |
| Net increase (decrease) in cash and cash equivalents | | 294,380 | (1,091,347) | 1,266,159 |
| Exchange effects on value of cash | | 153,074 | 83,908 | 85,869 |
| Cash and cash equivalents: | | | | |
| At the beginning of the year | | 1,540,403 | 2,547,842 | 1,195,814 |
| At end of year | | $ 1,987,857 | $ 1,540,403 | $ 2,547,842 |

See accompanying notes to the consolidated financial statements.

(Concluded)

## 1. Activity, main operations and significant events

### *Operations*

Alsea, S.A.B. de C.V. and Subsidiaries (Alsea or the Entity) was incorporated as a variable income stock company on May 16, 1997 in Mexico. The Entity's domicile is 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.

Alsea 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, La Finca and El Portón. In order to operate its multi-units, the Entity has the support of its shared service center, which includes the supply chain through Distribuidora e Importadora Alsea, S.A. de C.V. (DIA), real property and development services, as well as administrative services (financial, human resources and technology). The Entity operates the Burger King, P.F. Chang's, Chili's Grill & Bar and Starbucks brands in Chile. In Argentina, Alsea operates the Burger King, P.F. Chang's and Starbucks brands. In Colombia, Alsea operates the Domino's Pizza, Burger King, Starbucks, P.F. Chang's brands and from 2017 it operates the Archie's brand. In Brazil, the P.F brand operates. Chang's. In Spain, Alsea operates the brands Foster's Hollywood, Cañas and Tapas, Il Tempietto, La Vaca Argentina, Burger King and Domino's Pizza and as of December 31, 2018, Alsea operates VIPS, VIPS Smart, Starbucks, GINOS, Fridays, and Wagamama.

### *Significant events*

a. ***Acquisition of Sigla, S.A. -*** In October 2018, through its subsidiary Food Service Project, S.L. (Grupo Zena), Alsea entered into a purchase and sale agreement whereby, subject to the conditions contained therein, it acquired from the majority stockholders and founders, led by the Arango family and ProA Capital Iberian Buyout Fund II, F.C.R., a Spanish company, 100% of the common stock of the company known as Sigla, S.A., established under the laws of Spain and which, in conjunction with its subsidiaries is known as Grupo VIPS, and is engaged in the exploitation of multibrand restaurant establishments in Spain, of the brands VIPS, VIPS Smart, Starbucks, GINOS, Fridays, and Wagamama, for the price of €500 billion after debt (equivalent to MX $11,411,369) (hereinafter the acquisition price). Alsea consolidates the financial information of Grupo VIPS as of December 27, 2018, when the acquisition was formalized (see accounting effects in Note 15).

   The business of Grupo VIPS comprises more than 400 establishments between corporate and franchises, including a total of six brands, which address the segments of Casual Meals, Fast-Casual, Family Restaurants and Cafeterias in Spain, Portugal and Andorra.

b. ***Development of the Starbucks brand in France -*** In December 2018, Alsea entered into a development contract with Starbucks Coffee Company to obtain the total license and acquire the operations of Starbucks corporate and stores in France. This transaction resulted in Alsea acquiring 170 units (70 corporate and 100 franchises), and the rights to operate, sub-franchise and generate expansion opportunities for Starbucks stores in France. Alsea concluded the purchase process on January 27, 2019.

c. ***Development of the Burger King brand in Mexico -*** In March 2018, Alsea ceased to be the master franchisee of the Burger King brand in Mexico. Alsea will continue operating 181 Burger King stores in Mexico, as the biggest franchisee in the country, enhancing the brand's ongoing improvement process. Alsea will actively continue with its development plans for Burger King in the other countries where it operates (Argentina, Chile, Colombia and Spain).

d. ***Disposal of investment of associated - Grupo Axo -*** On May 30, 2017, Alsea signed an agreement with General Atlantic for the sale of the total of non-controlling interest of stockholder's equity of Grupo Axo, S.A.P.I. de C.V. (Grupo Axo) which was acquired in June 2013, the purchase also includes the non-controlling interest of the subsidiaries of Grupo Axo in Chile (Blue Stripes Chile, SPA and Stripes Chile SPA).

   On October 19, 2017, Alsea concluded the process of selling of the total of its investment in the capital stock of Grupo Axo and Axo Group subsidiaries in Chile, both transactions totaled $1,607 million; the resources obtained were used for the advance payment of debt and/or other growth projects.

e. ***Placement of debt instruments -*** On October 4, 2017, Alsea concluded the placement of debt instruments worth $1,000,000, maturing in October 2022, and bearing interest at the 28-day TIIE rate (Mexican Interbank Offering rate) plus 0.90 percentage points; and other the placement of debt instrument worth $2,000,000, maturing in October 2027, bearing interest at a fixed rate of 8.85%; this placement received a rating of "A+" for local currency debt by Fitch Rating & "AA-" by HR Ratings.

f. ***Signing of Starbucks Development Contract in Uruguay -*** On June 26, 2017, Alsea signed the development agreement with Starbucks Coffee International, Inc. to exclusively operate and develop Starbucks brand establishments in Uruguay. This agreement represents the expansion of Alsea in a new South American market, beginning operations in early 2018.

g. ***Refinancing and pre-payment of debt certificates -*** On September 8, 2016, Alsea 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 Alsea 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.

h. ***Acquisition of Sub-franchisee assets of Domino's Pizza Mexico -*** On September 2, 2016, Alsea 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.

i. ***Signing of Chili's Grill & Bar Development Contract in Chile -*** On June 7, 2016, Alsea signed an exclusive development agreement to operate and develop Chili's Grill & Bar restaurants in Chile. With this new development contract, Alsea agrees to have a minimum of 15 Chili's restaurants operating in the Andean country over a period of 10 years.

*j.* ***Acquisition of Archie's, S.A.S. In Colombia -*** On March 3, 2016, Alsea 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.

## 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 issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2018.

**New and amended IFRS Standards that are effective for the current year**

**Impact of initial application of IFRS 9, Financial Instruments**

In the current year, the Entity has applied IFRS 9, Financial Instruments, (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after January 1, 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives.

IFRS 9 introduced new requirements for:

1. The classification and measurement of financial assets and financial liabilities,
2. Impairment of financial assets, and
3. General hedge accounting.

Details of these new requirements as well as their impact on the Entity's consolidated financial statements are described below.

The Entity has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

***(a) Classification and measurement of financial assets***

The date of initial application (i.e. the date on which the Entity has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is January 1, 2018. Accordingly, the Entity has applied the requirements of IFRS 9 to instruments that continue to be recognized as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018.

All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the Entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortized cost;

- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);

- All other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite a foregoing, the Entity may make the following irrevocable election / designation at initial recognition of a financial asset:

- The Entity may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination in other comprehensive income; and

- The Entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Entity has not designated any debt investments that meet the amortized cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortized cost or at FVTOCI are subject to impairment. See (b) below.

Reviewed and assessed the Entity's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Entity's financial assets as regards their classification and measurement.

- The Entity's investments in redeemable notes were classified as available-for-sale financial assets under IAS 39, *Financial Instruments: Recognition and Measurement*. The notes have been reclassified as financial assets at amortized cost because they are held within a business model whose objective is to collect the contractual cash flows and they have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding;

- The Entity's investment in corporate bonds that were classified as available-for-sale financial assets under IAS 39 have been classified as financial assets at FVTOCI because they are held within a business model whose objective is both to collect contractual cash flows and to sell the bonds, and they have contractual cash flows that are solely payments of principal and interest on principal outstanding. The change in the fair value on these redeemable notes continues to accumulate in the investment revaluation reserve until they are derecognized or reclassified;

- There is no change in the measurement of the Entity's investments in equity instruments that are held for trading; those instruments were and continue to be measured at FVTPL;

- Financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortized cost continue to be measured at amortized cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

None of the other reclassifications of financial assets has had an impact on the Entity's financial position, gains or losses, other comprehensive income or total other integrated results in that year.

### *(b) Impairment of financial assets*

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Specifically, IFRS 9 requires the Entity to recognize a loss allowance for expected credit losses on:

(1) Debt investments measured subsequently at amortized cost or at FVTOCI,
(2) Lease receivables,
(3) Trade receivables and contract assets, and
(4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply

In particular, IFRS 9 requires the Entity to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Entity is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The consequential amendments to IFRS 7 have also resulted in more extensive disclosures about the Entity's exposure to credit risk in the consolidated financial statements.

### *(c) Classification and measurement of financial liabilities*

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issue.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognized. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

This change in accounting policy has affected the Entity's accounting for changes in the fair value of redeemable cumulative preference shares issued by the Entity in the current year that were designated by the Entity on initial recognition as financial liabilities at FVTPL.

Apart from the above, the application of IFRS 9 has had no impact on the classification and measurement of the Entity's financial liabilities.

Please refer to (e) below and (f) below for further details regarding the change in classification upon the application of IFRS 9.

### *(d) General hedge accounting*

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Entity's risk management activities have also been introduced.

In accordance with IFRS 9's transition provisions for hedge accounting, the Entity has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on January 1, 2018. The Entity's qualifying hedging relationships in place as at January 1, 2018 also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on January 1, 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Entity has also not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

IFRS 9 requires hedging gains and losses to be recognized as an adjustment to the initial carrying amount of non-financial hedged items (basis adjustment). In addition, transfers from the hedging reserve to the initial carrying amount of the hedged item are not reclassification adjustments under IAS 1 Presentation of Financial Statements and hence they do not affect other comprehensive income. Hedging gains and losses subject to basis adjustments are categorized as amounts that will not be subsequently reclassified to profit or loss in other comprehensive income. This is consistent with the Entity's practice prior to the adoption of IFRS 9.

Consistent with prior periods, when a forward contract is used in a cash flow hedge or fair value hedge relationship, the Entity has designated the change in fair value of the entire forward contract, i.e. including the forward element, as the hedging instrument.

When the option contracts are used to hedge the forecast transactions, the Entity designates only the intrinsic value of the options as the hedging instrument. Under IAS 39 the changes in the fair value of time value of option (i.e. non-designated component) were recognized immediately in profit or loss. Under IFRS 9, the changes in the time value of the options that relate to the hedged item ('aligned time value') are recognized in other comprehensive income and accumulated in the cost of hedging reserve within equity. The amounts accumulated in equity are either reclassified to profit or loss when the hedged item affects profit or loss or removed directly from equity and included in the carrying amount of non-financial item. IFRS 9 requires that the accounting for non-designated time value of option should be applied retrospectively. This only applies to hedging relationships that existed at January 1, 2017 or were designated thereafter.

Apart from this, the application of the IFRS 9 hedge accounting requirements has had no other impact on the results and financial position of the Entity for the current and/or prior years. Please refer to Note 22 (c) for detailed disclosures regarding the Entity's risk management activities.

### *(e) Disclosures in relation to the initial application of IFRS 9*

There were no financial assets or financial liabilities which the Entity had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Entity has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Entity has elected to designate as at FVTPL at the date of initial application of IFRS 9.

### *(f) Impact of initial application of IFRS 9 on financial performance*

*The application of IFRS 9 has had no impact on the consolidated cash flows of the Entity.*

*Impact of application of IFRS 15, Revenue from Contracts with Customers*

In the current year, the Entity has applied IFRS 15, Revenue from Contracts with Customers (as amended in April 2016), which is effective for an annual period that begins on or after January 1, 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Entity's consolidated financial statements are described below.

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the consolidated statement of financial position.

The Entity's accounting policies for its revenue streams are disclosed in detail in note 3 below. Apart from providing more extensive disclosures for the Entity's revenue transactions, the application of IFRS 15 has not had a significant impact on the consolidated financial position and/or financial performance of the Entity.

*Impact of application of Other amendments to IFRS Standards and Interpretations*

In the current year, the Entity has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after January 1, 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements.

| | |
|---|---|
| IFRIC 22, *Foreign Currency Transactions and Advance Consideration* | IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).<br>The Interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. |

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

The Entity has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

| | |
|---|---|
| IFRS 16 | Leases |
| Annual Improvements to IFRS Standards 2015-2017 Cycle | Amendments to IFRS 3, Business Combinations, IFRS 11, *Joint Arrangements*, IAS 12, *Income Taxes*, and IAS 23, *Borrowing Costs* |
| Amendments to IAS 19, *Employee Benefits* | *Plan Amendment, Curtailment or Settlement* |
| IFRIC 23 | *Uncertainty over Income Tax Treatments* |

The directors do not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Entity in future periods, except as noted below:

### *IFRS 16, Leases*

*General impact of application of IFRS 16, Leases*

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the consolidated financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17, Leases, and the related Interpretations when it becomes effective for accounting periods beginning on or after January 1, 2019. The date of initial application of IFRS 16 for the Entity will be January 1, 2019.
In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

*Impact of the new definition of a lease*

The Entity will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before January 1, 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Entity will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after January 1, 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Entity has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Entity.

*Impact on Lessee Accounting*

*Operating leases*

IFRS 16 will change how the Entity accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Entity will:

a) Recognize right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
b) Recognize depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortized as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Entity will opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

As at December 31, 2018, the Entity has non-cancellable operating lease commitments of $29,330,022.

A preliminary assessment indicates that $29,330,022 of these agreements relates to leases other than short-term leases and leases of low-value assets, and therefore the Entity will recognize an asset for the right of use of $ 24,250,668 and a corresponding lease liability of $24,250,668 with respect to all these leases.

*Finance leases*

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Entity recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. On initial application the Entity will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

*Impact on Lessor Accounting*

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Because of this change the Entity will reclassify certain of its sublease agreements as finance leases. As required by IFRS 9, an allowance for expected credit losses will be recognized on the finance lease receivables. The leased assets will be derecognized and finance lease asset receivables recognized. This change in accounting will change the timing of recognition of the related revenue (recognized in finance income).

### *Annual Improvements to IFRS Standards 2015-2017 Cycle Amendments to IFRS 3, Business Combinations, IFRS 11, Joint Arrangements, IAS 12, Income Taxes, and IAS 23, Borrowing Costs*

*The Annual Improvements include amendments to four Standards*

*IAS 12, Income Taxes*

The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

*IAS 23, Borrowing Costs*

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

*IFRS 3, Business Combinations*

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.

*IFRS 11, Joint Arrangements*

The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after January 1, 2019 and generally require prospective application. Earlier application is permitted.

The directors of the Entity do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements.

### *Amendments to IAS 19, Employee Benefits Plan Amendment, Curtailment or Settlement*

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after January 1, 2019, but they can be applied earlier if an entity elects to do so.

The directors of the Entity do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements.

***IFRIC 23, Uncertainty over Income Tax Treatments***

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- Determine whether uncertain tax positions are assessed separately or as an entity; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:

  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after January 1, 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The directors of the Entity do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements.

## 3. Significant accounting policies

### *a. Statement of compliance*

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

### *b. Basis of preparation*

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

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.

iii. Re-expression of financial statements

As of July 1, 2018, accumulated inflation of the last three years in Argentina exceeded levels of 100%, for which reason the Argentine peso was classified as a currency in a hyperinflationary economic environment. As a result, the financial statements of the subsidiaries in that country, whose functional currency is the Argentine peso, have been re-expressed to adopt the requirements of International Accounting Standard 29, Financial Information in *Hyperinflationary Economies*, (IAS 29) and have been consolidated in accordance with the requirements of IAS 21, *Effects of Variances in the Exchange Rates of the Foreign Currency*. The purpose of applying such requirements is to consider the changes in the general purchasing power of the Argentine peso and thus present the financial statements in the current measurement unit at the date of the statement of financial position. Argentina, for purposes of its financial reporting, updated its figures using the country's inflation rate based on official indexes. The financial statements before the re-expression were prepared using the historical costs method.

### *c. Basis of consolidation of financial statements*

The consolidated financial statements incorporate the financial statements of Alsea, S.A.B. de C.V. and entities controlled by the Entity. 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 recognize immediately in profit or loss.

### e. *Financial assets*

All regular way purchases or sales of financial assets are recognized and derecognized on a 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.
All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

*Classification of financial assets*

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Entity may make the following irrevocable election / designation at initial recognition of a financial asset:

- the Entity may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- the Entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below).

*(i) Amortized cost and 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.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), 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) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Entity recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included in the “finance income - interest income” line item.

*(ii) Debt instruments classified as at FVTOCI*

The corporate bonds held by the Entity are classified as at FVTOCI. Fair value. The corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses (see below), impairment gains or losses (see below), and interest income calculated using the effective interest method (see (i) above) are recognized in profit or loss. The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these corporate bonds had been measured at amortized cost. All other changes in the carrying amount of these corporate bonds are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.

When these corporate bonds are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

*(iii) Equity instruments designated as at FVTOCI*

On initial recognition, the Entity may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

A financial asset is 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 evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not being reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'finance income' line item in profit or loss.

The Entity has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9.

*(iv) Financial assets at FVTPL*

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI (see (i) to (iii) above) are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Entity designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see (iii) above).
- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria (see (i) and (ii) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Entity has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other gains and losses'.

*Foreign exchange gains and losses*

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- for financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other gains and losses';
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortized cost of the debt instrument are recognized in profit or loss in the 'other gains and losses'. Other exchange differences are recognized in other comprehensive income in the investments revaluation reserve;

- For financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other gains and losses' line item; and
- For equity instruments measured at FVTOCI, exchange differences are recognized in other comprehensive income in the investments revaluation reserve.

See hedge accounting policy regarding the recognition of exchange differences where the foreign currency risk component of a financial asset is designated as a hedging instrument for a hedge of foreign currency risk.

*Impairment of financial assets*

The Entity recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Entity always recognizes lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Entity's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Entity recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Entity measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

*(i) Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Entity compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Entity considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Entity's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Entity's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition.

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;

- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Entity presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Entity has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Entity assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(1) The financial instrument has a low risk of default,
(2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
(3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Entity considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

For financial guarantee contracts, the date that the Entity becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Entity considers the changes in the risk that the specified debtor will default on the contract.

The Entity regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

*(ii) Definition of default*

The Entity considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Information developed internally or obtain...ed from external sources indicates that the debtor is unlikely to pay its creditors, including the Entity, in full (without taking into account any collateral held by the Entity).

Irrespective of the above analysis, the Entity considers that default has occurred when a financial asset is more than 90 days past due unless the Entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

*(iii) Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) Significant financial difficulty of the issuer or the borrower;
(b) A breach of contract, such as a default or past due event (see (ii) above);
(c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
(e) The disappearance of an active market for that financial asset because of financial difficulties.

*(iv) Write-off policy*

The Entity writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Entity's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

*(v) Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Entity's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Entity in accordance with the contract and all the cash flows that the Entity expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17, *Leases*.

For a financial guarantee contract, as the Entity is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Entity expects to receive from the holder, the debtor or any other party.

If the Entity has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Entity measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Entity recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

*Derecognition of financial assets*

The Entity derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Entity recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Entity continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Entity has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

### 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 | 20 to 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 |
| Vips | Spain | Own brand |
| Ginos | Spain | 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 |
| | Mexico | 2037 |
| | Argentina | 2027 |
| | Colombia | 2033 |
| Starbucks Coffee | Chile | 2027 |
| | Spain | 2030 |
| | Portugal | 2030 |
| | Andorra | 2030 |
| Fridays | Spain | 2030 |
| | Portugal | 2030 |
| | Andorra | 2030 |
| | Spain | 2036 |
| Wagamama | Portugal | 2036 |
| | Andorra | 2036 |
| Burger King | Mexico, Argentina, Chile, Colombia and Spain [3] | Depending on opening dates |
| | Mexico | 2023 |
| Chili's Grill & Bar | Colombia | 2026 |
| | Chile | 2026 |
| California Pizza Kitchen | Mexico | 2022 |
| P.F. Chang's | Mexico [2] | 2019 |
| | Argentina, Chile, Brazil and 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 renewed its 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, 2018, 2017 and 2016, 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. As of December 31, 2018, 2017 and 2016, there were no impairment effects that required adjustments to the values of its long-lived assets.

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 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 acquire 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 acquire 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.

### l. 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. As of December 31, 2018 and 2016, there were no impairment effects on goodwill. At December 31, 2017, the Entity has identified impairment effects on its La Vaca Argentina and Il Tempietto brands for an amount of $3,270, and $377, respectively.

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.

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 36 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.

Payments for leases of operating leases are charged to income using the straight-line method, during the term corresponding to the lease.

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, Uruguay, Chile, Colombia, Brazil and Spain), which comprise 45%, 44% and 42% of consolidated net income and 52%, 31% and 25% of the total consolidated assets at December 31, 2018, 2017 and 2016, 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.

The defined benefit plan includes retirement. The other benefits correspond to the legal seniority premium in Mexico. Its cost is determined using the projected unit credit method, with actuarial valuations that are made at the end of each 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 (PTU)

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, 2018, 2017 and 2016, 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.

### *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 IFRS 15.

### *s. Financial liabilities and equity instruments*

1. Classification as debt or equity

Debt and / or equity instruments are classified as financial liabilities or as capital in accordance with the substance of the contractual agreement and the definitions of liabilities and capital.

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.

4. Derecognition of financial liabilities

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

### 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.

***Hedge accounting:*** 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***

The Entity recognizes income from the following sources:
*Sale of goods*
*Provision of services*
*Royalties*

*Sale of goods*
Beverages and food sold by Alsea are transferred to the customer at the time they are delivered and/or consumed by them. For all sales of goods, the payment method is cash and is recorded at the time they are delivered to the customer.

*Provision of services*
The income is recognized according to the percentage of termination. Every month the Entity receives from the clients a fixed agreed payment and the recording is made when the services have been accrued and generally accepted in time.

*Royalties*
Revenue from royalties is based on a fixed percentage on sales of subfranchises. Alsea has two revenues from the sale of the subfranchises. At the beginning of the contract, the subfranchisee pays an amount depending on the franchise, which is recorded as income in the period of the duration of the contract. The other royalties are through a fixed monthly fee.

## 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. (Zena Group) and sale option of the non-controlling interest

Note 15 mentions that Grupo Zena is a subsidiary of Alsea, over which it owns 66.24%. Based on the contractual agreements between the Entity and other investors, Alsea has the power to appoint and dismiss the majority of the members of the board of directors, executive committee and management positions of Grupo Zena, which have the power to direct the activities of the Zena Group. Therefore, the Entity's management concluded that Alsea has the ability to direct the relevant activities of Grupo Zena and therefore has control over that entity.

Similarly, Grupo Zena has the right to sell Alsea its uncontrolled participation (put option). The sale option may be exercised no later than April 19, 2019, in accordance with the addendum to the shareholder's agreement dated December 27, 2018.

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. Details of this liability can be consulted in Note 19.

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

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.

### 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

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

As discussed in Note 19, Grupo Zena has the option of selling the noncontrolling interest of Alsea. On October 30, 2018, Alsea and the investors of Grupo Zena signed a new agreement for purchase and sale options, termination of the stockholders' agreement and a commitment to enter into a new stockholders' agreement, which was ratified on December 27, 2018, stipulating the termination of the original stockholders' agreement and the formalization of this new agreement, whereby Grupo Zena has the right to sell to Alsea its noncontrolling interest in other investors for 21.06% of the equity of Grupo Zena, the net amount between termination of the original agreement and recognition of the new right was recorded net in the consolidated statement of changes in stockholders' equity under Reserve for purchase of noncontrolling interest, in the amount of $659,252.

## 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, 2018, 2017 and 2016 is comprised as follows:

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Cash | $ | 1,769,871 | $ | 1,453,537 | $ | 1,878,770 |
| Investments with original maturities of under three months | | 217,986 | | 86,866 | | 669,072 |
| Total cash and cash equivalents | $ | 1,987,857 | $ | 1,540,403 | $ | 2,547,842 |

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, net

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, 2018, 2017 and 2016, the customer balance is comprised as follows:

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Franchises | $ | 241,825 | $ | 247,118 | $ | 315,864 |
| Credit card | | 10,897 | | 304,419 | | 105,115 |
| Other | | 658,565 | | 530,920 | | 419,059 |
| | | 911,287 | | 1,082,457 | | 840,038 |
| Allowance for doubtful accounts [(1)] | | (97,255) | | (162,193) | | (131,658) |
| | $ | 814,032 | $ | 920,264 | $ | 708,380 |

## Accounts receivable

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.

The Entity has chosen to consider probabilities of default for each bucket of delay, as well as estimated recovery rates based on the internal recovery information of its accounts receivable in the one-year window, derived from this, the Entity records 100% of the significant customers, given their legal status and does not apply the severity of loss since it does not have high expectations of recovery.

The reserve is then composed of the part of the general and significant customers which follows a procedure of credit losses expected according to the provisions of the standard. Additionally, it incorporates a criterion to be followed, either quantitative or qualitative, to consider a significant increase in the credit risk of the account receivable and follow up to prepare the estimate of its reserves on a quarterly basis.

Before accepting any new client, the Entity uses an external credit rating system to evaluate the credit quality of the potential client and defines the credit limits per client.

As mentioned in Note 2b, for the determination of the estimation of doubtful accounts, the Entity performs an analysis of balances seniority per client and is assigned based on the experience an estimation percentage. This first analysis gives an indication of deterioration; subsequently, an analysis of the financial situation of all the included clients is carried out to determine which are the accounts that present an impairment according to the expected credit loss model and on these the corresponding estimate is recorded.

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

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| 15-60 days | $ | 95,469 | $ | 13,371 | $ | 29,052 |
| 60-90 days | | 24,213 | | 13,044 | | 6,126 |
| More than 90 days | | 123,622 | | 153,900 | | 129,561 |
| Total | $ | 243,304 | $ | 180,315 | $ | 164,739 |
| Average time overdue (days) | | 59 | | 95 | | 93 |

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, net

At December 31, 2018, 2017 and 2016, inventories are as follows:

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Food and beverages | $ | 1,727,214 | $ | 1,869,134 | $ | 1,383,029 |
| Containers and packaging | | 101,768 | | 65,759 | | 55,001 |
| Other [(1)] | | 299,203 | | 82,591 | | 145,237 |
| Obsolescence allowance | | (7,977) | | (7,705) | | (7,904) |
| Total | $ | 2,120,208 | $ | 2,009,779 | $ | 1,575,363 |

(1) In others are concepts such as toys, uniforms, cleaning utensils, kitchen appliances and souvenirs.

Inventories recognized under cost of sales for inventory consumption in the period related to continuous operations totaled $14,187,508, $12,923,189 and $11,779,630 for the years ended December 31, 2018, 2017 and 2016, respectively.

## 9. Advance payments

Advance payments were made for the acquisition of: Advance payments were made for the acquisition of:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Insurance and other services | $ 153,978 | $ 288,458 | $ 287,426 |
| Inventories | 207,633 | 91,029 | 80,529 |
| Lease of locales | 43,358 | 32,076 | 34,235 |
| Total | $ 404,969 | $ 411,563 | $ 402,190 |

## 10. Store equipment, leasehold improvements and property, net

Store equipment, leasehold improvements and properties are as follows:

| Cost | Buildings | Store equipment | Leasehold improvements | Capital lease | Transportation equipment | Computer equipment | Production equipment | Office furniture and equipment | Construction in process | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at January 1, 2016 | $ 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 | 867,293 | 6,326,164 | 8,677,497 | 288,428 | 213,639 | 881,089 | 989,451 | 375,763 | 2,507,007 | 21,126,331 |
| Acquisitions | 152,336 | 1,828,314 | 2,649,953 | - | 54,260 | 207,480 | 29,461 | 139,597 | (365,730) | 4,695,671 |
| Reclassified of financial leases | (89,873) | - | (58,867) | - | - | - | - | - | - | (148,740) |
| Disposals | (29,910) | (198,285) | (357,784) | - | (34,583) | (51,942) | (9,645) | (45,294) | - | (727,443) |
| Adjustment for currency conversion | 17,096 | 46,570 | 92,533 | - | 4,136 | 17,388 | - | 22,981 | - | 200,704 |
| Balance as of December 31, 2017 | 916,942 | 8,002,763 | 11,003,332 | 288,428 | 237,452 | 1,054,015 | 1,009,267 | 493,047 | 2,141,277 | 25,146,523 |
| Acquisitions | 20,574 | 1,444,910 | 1,637,413 | - | 59,699 | 179,854 | 105,192 | 70,707 | 734,877 | 4,253,226 |
| Business acquisitions | 22,466 | 1,325,362 | 4,664,288 | - | - | 166,143 | - | - | 22,714 | 6,200,973 |
| Reclassified of financial leases | - | - | - | - | - | - | - | - | - | - |
| Disposals | (3,864) | (292,142) | (806,468) | (5,569) | (20,931) | (79,828) | (126,940) | (121,174) | (328,265) | (1,785,181) |
| Restatement | - | 442,442 | 652,277 | - | 2,696 | 12,192 | - | 7,495 | 7,787 | 1,124,889 |
| Adjustment for currency conversion | (9,030) | (506,850) | (817,171) | - | (9,016) | (61,474) | - | (22,763) | (141,614) | (1,567,918) |
| Balance as of December 31, 2018 | $ 947,088 | $ 10,416,485 | $ 16,333,671 | $ 282,859 | $ 269,900 | $ 1,270,902 | $ 987,519 | $ 427,312 | $ 2,436,776 | $ 33,372,512 |

| Depreciation | Buildings | Store equipment | Leasehold improvements | Capital lease | Transportation equipment | Computer equipment | Production equipment | Office furniture and equipment | Construction in process | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at January 1, 2016 | $ 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 | 98,633 | 2,683,651 | 3,315,753 | 22,588 | 100,124 | 538,839 | 587,447 | 105,851 | - | 7,452,886 |
| Charge for depreciation for the year | 49,040 | 902,852 | 1,131,063 | 12,624 | 39,257 | 160,583 | 36,848 | 36,182 | - | 2,368,449 |
| Reclassified as held for sale | (41,628) | - | (19,876) | - | - | - | - | - | - | (61,504) |
| Adjustment for currency conversion | 7,364 | 69,706 | 67,637 | - | 1,255 | 15,223 | - | 13,696 | - | 174,881 |
| Disposals | (15,522) | (169,725) | (266,354) | - | (25,870) | (42,555) | (5,074) | (35,568) | - | (560,668) |
| Balance as of December 31, 2017 | 97,887 | 3,486,484 | 4,228,223 | 35,212 | 114,766 | 672,090 | 619,221 | 120,161 | - | 9,374,044 |
| Charge for depreciation for the year | 7,381 | 1,118,145 | 1,235,739 | 12,422 | 45,978 | 172,107 | 48,079 | 38,010 | - | 2,677,861 |
| Business acquisitions | 12,597 | 781,075 | 2,564,125 | - | - | 135,204 | - | - | - | 3,493,001 |
| Reclassified as held for sale | - | - | - | - | - | - | - | - | - | - |
| Disposals | (2,276) | (256,816) | (774,794) | (1,804) | (23,836) | (69,284) | (109,575) | (42,944) | - | (1,281,329) |
| Restatement | - | 205,740 | 324,183 | - | 2,220 | 5,879 | - | 4,576 | - | 542,598 |
| Adjustment for currency conversion | (1,670) | (200,931) | (338,264) | - | (5,489) | (41,723) | - | (12,811) | - | (600,888) |
| Balance as of December 31, 2018 | $ 113,919 | $ 5,133,697 | $ 7,239,212 | $ 45,830 | $ 133,639 | $ 874,273 | $ 557,725 | $ 106,992 | $ - | $ 14,205,287 |

| Net cost | Buildings | Store equipment | Leasehold improvements | Capital lease | Transportation equipment | Computer equipment | Production equipment | Office furniture and equipment | Construction in process | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance as of December 31, 2016 | $ 768,660 | $ 3,642,513 | $ 5,361,744 | $ 265,840 | $ 113,515 | $ 342,250 | $ 402,004 | $ 269,912 | $ 2,507,007 | $ 13,673,445 |
| Balance as of December 31, 2017 | $ 819,055 | $ 4,516,279 | $ 6,775,109 | $ 253,216 | $ 122,686 | $ 381,925 | $ 390,046 | $ 372,886 | $ 2,141,277 | $ 15,772,479 |
| Balance as of December 31, 2018 | $ 833,169 | $ 5,282,788 | $ 9,686,781 | $ 237,029 | $ 136,261 | $ 396,629 | $ 429,794 | $ 320,320 | $ 1,844,454 | $ 19,167,225 |

## 11. Intangible assets, net

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, 2016 | $ 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 |
| Acquisitions | 93,578 | - | 216,519 | 201,619 | - | 511,716 |
| Adjustment for currency conversion | 35,585 | 3,551 | (2,806) | 25,001 | - | 61,331 |
| Disposals | (12,668) | (11,025) | (29,078) | (4,870) | - | (57,641) |
| Impairment losses | - | - | - | - | (3,647) | (3,647) |
| Balance as of December 31, 2017 | 8,562,498 | 377,094 | 1,363,208 | 1,176,246 | 6,877,618 | 18,356,664 |
| Acquisitions | 83,689 | 839 | 173,840 | 98,561 | - | 356,929 |
| Business acquisition | 125,986 | 162,944 | - | 344,635 | 10,561,055 | 11,194,620 |
| Adjustment for currency conversion | (119,397) | (15,365) | (19,309) | (36,135) | - | (190,206) |
| Disposals | (86,706) | (8,716) | (74,158) | (49,012) | - | (218,592) |
| Restatement | 107,519 | 8,796 | - | - | - | 116,315 |
| Balance as of December 31, 2018 | $ 8,673,589 | $ 525,592 | $ 1,443,581 | $ 1,534,295 | $ 17,438,673 | $ 29,615,730 |

| Amortization | Brand rights | Commissions for store opening | Franchise and use of locale rights | Licenses and developments | Goodwill | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2016 | $ 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 |
| Amortization | 137,481 | 3,235 | 110,381 | 132,129 | - | 383,226 |
| Adjustment for currency conversion | 3,922 | 3,412 | 567 | 21,279 | - | 29,180 |
| Disposals | (4,689) | (10,761) | (21,867) | (6,000) | - | (43,317) |
| Balance as of December 31, 2017 | 1,218,073 | 377,058 | 534,019 | 852,555 | 16,953 | 2,998,658 |
| Amortization | 209,717 | (421) | 99,028 | 128,542 | - | 436,866 |
| Business acquisition | 81,821 | 136,128 | - | 290,531 | - | 508,480 |
| Adjustment for currency conversion | (19,724) | (15,081) | (7,387) | (20,506) | - | (62,698) |
| Disposals | (48,545) | (8,608) | (28,369) | (45,396) | - | (130,918) |
| Restatement | 42,509 | 2 | - | - | - | 42,511 |
| Balance as of December 31, 2018 | $ 1,483,851 | $ 489,078 | $ 597,291 | $ 1,205,726 | $ 16,953 | $ 3,792,899 |
| **Net cost** | | | | | | |
| Balance as of December 31, 2016 | $ 7,364,644 | $ 3,396 | $ 733,635 | $ 249,349 | $ 6,864,312 | $ 15,215,336 |
| Balance as of December 31, 2017 | $ 7,344,425 | $ 36 | $ 829,189 | $ 323,691 | $ 6,860,665 | $ 15,358,006 |
| Balance as of December 31, 2018 | $ 7,189,738 | $ 36,514 | $ 846,290 | $ 328,569 | $ 17,421,720 | $ 25,822,831 |

## 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:

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Minimum lease payments | $ | 3,944,744 | $ | 4,031,877 | $ | 3,274,251 |

### b. Commitments non-cancellable operating leases

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Less than a year | $ | 4,598,153 | $ | 2,845,064 | $ | 1,924,672 |
| Between one and five years | | 24,731,869 | | 11,524,706 | | 8,662,305 |

### 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 | | | | |
|---|---|---|---|---|---|---|
| | | 2018 | | 2017 | | 2016 |
| Less than a year | $ | 32,398 | $ | 32,398 | $ | 32,398 |
| Between one and five years | | 113,295 | | 115,009 | | 97,195 |
| More than five years | | 456,633 | | 490,185 | | 536,997 |
| | | 602,326 | | 637,592 | | 666,590 |
| Less future finance charges | | (311,152) | | (336,149) | | (358,956) |
| Minimum lease payments | $ | 291,174 | $ | 301,443 | $ | 307,634 |

| | Present value of minimum payments of leases | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Less than a year | $ 6,799 | $ 6,799 | $ 6,799 |
| Between one and five years | 23,898 | 25,086 | 20,398 |
| More than five years | 260,477 | 269,558 | 280,437 |
| Present value of minimum lease payments | $ 291,174 | $ 301,443 | $ 307,634 |
| Included in the consolidated financial statements as: | | | |
| Short-term financial liability | $ 6,799 | $ 6,799 | $ 6,799 |
| Long-term financial liability | 284,375 | 294,644 | 300,835 |
| | $ 291,174 | $ 301,443 | $ 307,634 |

## 13. Investment in subsidiaries

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

| Name of subsidiary | Principal activity | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| 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. (1) | Operator of the Domino's Pizza brand in Colombia | - | - | 93.30% |
| Servicios Múltiples Empresariales ACD, S.A. de C.V. (antes 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% | 94.94% | 94.94% |
| 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% |

| Name of subsidiary | Principal activity | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Especialista en Restaurantes de Comida Estilo Asiática, S.A. de C.V. | Distributor of foods and production materials for the Alsea and related brands | 100.00% | 100.00% | 100.00% |
| Distribuidora e Importadora Alsea, S.A. de C.V. | Operator of Italianni's brand | 100.00% | 100.00% | 100.00% |
| Italcafé, 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% | 100.00% |
| Grupo Amigos de Torreón, S.A. de C.V. | Operator of the Starbucks brand in Chile | 100.00% | 100.00% | 100.00% |
| Starbucks Coffee Chile, S.A. | Distributor of food and supplies for Alsea brands in Colombia | 100.00% | 100.00% | 100.00% |
| Distribuidora e Importadora Alsea Colombia, S.A.S. (1) | Operator of the Starbucks brand in Colombia | - | - | 100.00% |
| Estrella Andina, S.A.S. | Operator of Vips brand | 70.00% | 70.00% | 70.00% |
| Operadora Vips, S. de R.L. de C.V. | Operator Brand Cheesecake Factory in Mexico | 100.00% | 100.00% | 100.00% |
| OPQR, S.A. de C.V. | Operator of Spain | 100.00% | 100.00% | 100.00% |
| Food Service Project, S.L. (Grupo Zena) | Operator of Chili's Grill & Bar in Chile | 66.24% | 71.76% | 71.76% |
| Gastrococina Sur, S.P.A. | Operator of Archie´s brand in Colombia | 100.00% | 100.00% | 100.00% |
| Gastronomía Italiana en Colombia, S.A.S. (1) | Operator of the VIPS, VIPS Smart, Starbucks, GINOS, Fridays and Wagamama brands in Spain | 97.60% | 97.60% | 100.00% |
| Sigla, S.A. (Grupo VIPS) (ver Nota 1a) | Operator of Starbucks brand in Uruguay | 100.00% | - | - |
| Café Sirena Uruguay, S.A. | Operator of the Burger King and Domino's Pizza brand in Mexico | 100.00% | 100.00% | - |
| Operadora GB Sur, S.A. de C.V. | Operadora de las marcas Vips y Domino's Pizza en México | 70.90% | 70.90% | - |

(1) On July 19, 2017, the merger project between Distribuidora e Importadora Alsea Colombia, S.A.S. and Dominalco, S.A. as merged companies and designating as a merging company Gastronomía Italiana en Colombia, S.A.S. assuming the latter, all the rights and obligations of the merger.

## 14. Investment in shares of associated companies

At December 31, 2018, 2017 and 2016, the investment in shares of associated companies is comprised of the Entity's direct interest in the capital stock of the companies listed below:

| | (%) | | | | Interest in associated company | | |
|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | Main operations | 2018 | 2017 | 2016 |
| Operadora de Restaurantes AYB Polanco, S.A. de C.V. (4) | 30.00% | - | - | Operator of restaurants of the EF Entre Fuegos brand and EF Entre Fuegos Elite Steak House that operates in Mexico | $ 14,296 | $ - | $ - |
| Grupo Axo, S.A.P.I. de C.V. (2) (3) | - | - | 25.00% | Sales of prestigious brands of clothes and accessories in Mexico | - | - | 995,596 |

| | (%) | | | | Interest in associated company | | |
|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | Main operations | 2018 | 2017 | 2016 |
| Blue Stripes Chile SPA [3] | - | - | 33.33% | Sales of prestigious brands of clothes and accessories in Chile | - | - | 9,717 |
| Stripes Chile SPA [1] [3] | - | - | 33.33% | Sales of prestigious brands of clothes and accessories in Chile | - | - | 30,662 |
| Total | | | | | $ 14,296 | $ - | $ 1,035,975 |

| | (%) | | | | Equity in results | | |
|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | Main operations | 2018 | 2017 | 2016 |
| Grupo Axo, S.A.P.I. de C.V. | - | 25.00% | 25.00% | Sales of prestigious brands of clothes and accessories in Mexico | $ - | $ (3,487) | $ 65,989 |
| Blue Stripes Chile SPA [1] | - | 33.33% | 33.33% | Sales of prestigious brands of clothes and accessories in Chile | - | 1,892 | 1,506 |
| Stripes Chile SPA | - | 33.33% | 33.33% | Sales of prestigious brands of clothes and accessories in Chile | - | 1,158 | 382 |
| Total | | | | | $ - | $ (437) | $ 67,877 |

(1) Stripes Chile SPA is a direct subsidiary of Grupo Axo together with another subsidiary of the Entity.

(2) 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.

(3) As mentioned in Note 1d, on October 19, 2017, Alsea concluded the process of selling the investment in an associate - Grupo Axo, S.A.P.I. de C.V. which generated a gain on sale of shares for $608,817, accounted for under other (income) expense in the consolidated statements of income.

(4) On September 12, 2018, AFP Asesores de Franquicias, S.A. of C.V. (subsidiary of Alsea), signed an investment contract for $14,296 that represents 30% of the shareholding of Restaurant Operator AYB Polanco, S.A. of C.V., as of December 31, 2018, the associate has not formally commenced operations

## Stripes Chile SPA

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

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Current assets | $ - | $ - | $ 70,058 |
| Non-current assets | $ - | $ - | $ 60,025 |
| Current liabilities | $ - | $ - | $ 38,088 |

| | | 2018 | | 1/01/2017 to 19/10/2017 | | 2016 |
|---|---|---|---|---|---|---|
| Income | $ | - | $ | 87,228 | $ | 132,312 |
| Net profit for the period | $ | - | $ | 3,474 | $ | 1,146 |

## Blue Stripes Chile SPA

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

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Current assets | $ | - | $ | - | $ | 40,512 |
| Non-current assets | $ | - | $ | - | $ | 33,548 |
| Current liabilities | $ | - | $ | - | $ | 44,906 |

| | | 2018 | | 1/01/2017 to 19/10/2017 | | 2016 |
|---|---|---|---|---|---|---|
| Income | $ | - | $ | 98,874 | $ | 63,642 |
| Net profit for the period | $ | - | $ | 5,677 | $ | 4,518 |

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

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

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Current assets | $ | - | $ | - | $ | 3,656,612 |
| Non-current assets | $ | - | $ | - | $ | 3,182,682 |
| Current liabilities | $ | - | $ | - | $ | 2,168,965 |
| Non-current liabilities | $ | - | $ | - | $ | 2,927,493 |

| | | 2018 | | 1/01/2017 to 19/10/2017 | | 2016 |
|---|---|---|---|---|---|---|
| Revenues | $ | - | $ | 5,769,233 | $ | 6,144,101 |
| Net (loss) profit for the period | $ | - | $ | (13,948) | $ | 263,956 |

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

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Net assets of the associated entity | $ | - | $ | - | $ | 1,742,836 |
| Entity's interest in Grupo Axo | $ | - | $ | - | $ | 435,709 |
| Plus: goodwill | | - | | - | | 559,887 |
| Carrying value of the Entity's interest in Grupo Axo | $ | - | $ | - | $ | 995,596 |

## 15. Business combination

### Subsidiaries acquired

| Entity name | Main activity | Acquisition date | Proportion of shares acquired (%) | Consideration transferred |
|---|---|---|---|---|
| Sigla, S.A. | Operator of the VIPS, VIPS Smart, Starbucks, GINOS, Fridays and Wagamama brands in Spain | December 27, 2018 | 100% | $ 11,411,369 |
| Archie's Colombia, S.A.S. | Operator of the Archie's brand in Colombia | April 2016 | 100% | $ 293,027 |

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 Sigla

On December 27, 2018, the acquisition process was concluded for the majority stockholders and founders, led by the Arango family and ProA Capital Iberian Buyout Fund II, F.C.R., a Spanish company, whereby 100% of the common stock of the company known as Sigla, S.A., established under the laws of Spain and which, in conjunction with its subsidiaries is known as Grupo VIPS was acquired by Grupo Zena.

The consideration paid for the acquisition was €500 million after debt payable in cash (equivalent to MX $11,411,369).

The acquisition does not contemplate any contingent consideration. This transaction establishes a purchase and sale option for 12.70% of the share capital during the 7-year period as of the acquisition date, which was recorded under IFRS 9, Financial Instruments: Presentation (Note 19).

The following is an analysis of the preliminary allocation of the cost of acquisition over the values of the net assets acquired and that are in the measurement stage according to IFRS 3. Since it is in the measurement period, which is estimated which will end in December 2019, the preliminary amounts below are subject to change:

| Concept | December 31, 2018 |
|---|---|
| **Current assets:** | |
| Cash and cash equivalents | $ 413,716 |
| Accounts receivable and other accounts receivable | 431,694 |
| Inventories | 369,541 |
| **Long-term assets:** | |
| Store equipment and leasehold improvements | 2,707,972 |
| Intangible assets | 125,085 |
| Deferred income taxes | 457,679 |
| **Current liabilities:** | |
| Accounts payable to suppliers and other accounts payable | (1,802,471) |
| Current maturities of long-term debt | (1,713) |

| Concept | | December 31, 2018 |
|---|---|---|
| **Long-term liabilities:** | | |
| Long-term debt | | (1,688,337) |
| Deferred income taxes | | (12,198) |
| Other long-term liabilities | | (150,654) |
| Fair value of net assets acquired | | 850,314 |
| Total value of the consideration paid | | 11,411,369 |
| Goodwill | $ | 10,561,055 |

The initial recording for the acquisition of Grupo VIPS was only provisionally determined at the end of the period. As of the date of termination of these consolidated financial statements, the necessary market valuations and other calculations have not been completed and therefore have been determined provisionally based on the best estimate of the administration.

The goodwill that arises from the acquisition of Grupo VIPS, derives from the paid consideration that included amounts related to the benefits of operating more than 400 establishments between corporate and franchisees, expecting a market growth with a development plan for the next five years in the market, likewise the adjacent benefits mainly income growth, synergies expected in the operation and in the purchase of inputs. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Net cash flows related to the acquisition of the subsidiary total $10,997,653, corresponding to the consideration paid in cash of $11,411,369, less cash and cash and cash equivalent balances acquired for $413,716.

If the acquisition had occurred at beginning of year, Alsea's consolidated net profit for the period would have been $682,777 and revenues would have been $54,849,482. Acquisition expenses related to this transaction amounted to $54,172, which is shown within other expenses.

## 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, S.A.S. (previously Archie's Colombia, S.A.S.).

The following is an analysis of the allocation of the acquisition cost over the fair values of the net assets acquired. Given that the total value of the consideration paid was equal to the fair value of the net assets acquired, there were no changes in the preliminary accounting of the acquisition.

| 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.

## 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::

| Brand | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| 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 [1] | | - | | - | | 3,270 |
| Il Tempietto (1) | | - | | - | | 377 |
| Sigla, S.A. (ver Nota 15) | | 10,561,055 | | - | | - |
| Cañas y Tapas | | 6,838 | | 6,838 | | 6,838 |
| | $ | 17,421,720 | $ | 6,860,665 | $ | 6,864,312 |

(1) At December 31, 2017, the goodwill assigned to the La Vaca Argentina and Il Tempietto brands was impaired by $3,270 and $377, respectively.

As of December 31, 2018, 2017 and 2016, the studies carried out on the impairment tests concluded that the goodwill has no impairment, with the exception of the goodwill assigned to the brands mentioned in the previous paragraph.

## 17. Long-term debt

Long-term debt at December 31, 2018, 2017 and 2016 is comprised of unsecured loans, as shown below:

| Bank | Type of credit | Currency | Rate | Maturity | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|---|---|
| Sindicado | Simple credit | Mexican pesos | Variable rate TIIE +1.25% | 2023 | $ 3,681,937 | $ - | $ - |
| Sindicado | Simple credit | Euros | Variable rate Euribor +1.25% | 2023 | 9,712,018 | - | |
| Sindicado | Simple credit | Euros | 1.89% (Fixed rate) | 2020 | - | 2,338,640 | 2,274,063 |
| Scotiabank Inverlat, S.A. | Simple credit | Mexican pesos | Variable rate TIIE +0.97% | 2019 | - | - | 1,957,553 |
| Bank of América | Simple credit | Mexican pesos | 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 | 1,000,000 |
| Bank of Tokyo | Simple credit | Mexican pesos | Variable rate TIIE +1.35% | 2021 | - | - | 996,078 |
| Bank of Tokyo | Simple credit | Mexican pesos | Variable rate TIIE +0.95% | 2021 | - | 900,000 | - |
| Banco Nacional de Comercio Exterior S.N.C. (Bancomext) | Simple credit | Mexican pesos | Variable rate TIIE +1.32% | 2025 | 1,661,002 | 600,000 | 866,400 |
| Banco Santander, S.A. | Simple credit | Mexican pesos | Variable rate TIIE +1.00% | 2021 | 152,893 | 260,000 | 796,267 |
| Banco Nacional de México, S.A. | Simple credit | Mexican pesos | Variable rate TIIE +0.75% | 2020 | - | 432,000 | 430,770 |
| Scotiabank Inverlat, S.A. | Simple credit | Mexican pesos | Variable rate TIIE +0.90% | 2019 | - | 270,000 | - |
| Scotiabank Inverlat, S.A. | Simple credit | Mexican pesos | Variable rate TIIE +0.80% | 2019 | - | 700,000 | - |
| Scotiabank Inverlat, S.A. | Simple credit | Mexican pesos | Variable rate TIIE +0.93% | 2021 | 400,000 | 400,000 | - |
| Banco Santander, S.A. | Simple credit | Mexican pesos | Variable rate TIIE +1.00% | 2022 | 285,369 | 485,310 | - |
| Banco Santander, S.A. | Simple credit | Mexican pesos | Variable rate TIIE +0.65% | 2019 | 200,000 | - | - |
| Banco Santander, S.A. | Simple credit | Mexican pesos | Variable rate TIIE +0.50% | 2019 | 120,000 | - | - |
| Banco Santander, S.A. | Simple credit | Mexican pesos | Variable rate TIIE +0.65% | 2019 | 130,000 | - | - |
| Scotiabank Inverlat, S.A. | Simple credit | Mexican pesos | Variable rate TIIE +0.45% | 2019 | 200,000 | - | - |
| Scotiabank Inverlat, S.A. | Simple credit | Mexican pesos | Variable rate TIIE +0.45% | 2019 | 200,000 | - | - |
| BBVA Bancomer, S.A. | Simple credit | Mexican pesos | Variable rate TIIE +1.00% | 2019 | 400,000 | - | - |
| Banco Unión Argentina | Simple credit | Argentine pesos | 29% (Fixed rate) | 2019 | 19,466 | - | - |
| Banco Unión Argentina | Simple credit | Argentine pesos | 29.25% (Fixed rate) | 2019 | 27,253 | - | - |
| Banco Citibank Argentina | Simple credit | Argentine pesos | 27% (Fixed rate) | 2017 | - | - | 303,355 |
| BBVA Francés | Simple credit | Argentine pesos | 22% (Fixed rate) | 2017 | - | - | 146,200 |
| Banco HSBC, S.A. | Simple credit | Colombian pesos | 24.5% (Fixed rate) | 2017 | - | - | 97,740 |
| Santander Chile, S.A. | Simple credit | Chilean pesos | 4.02% (Fixed rate) | 2017 | - | - | 83,696 |
| BBVA Francés | Simple credit | Argentine pesos | 23.25% (Fixed rate) | 2018 | - | 103,096 | - |
| Banco HSBC, S.A. | Simple credit | Argentine pesos | 29% (Fixed rate) | 2019 | 106,157 | 110,442 | - |
| Banco Citibank | Simple credit | Argentine pesos | 29.25% (Fixed rate) | 2019 | 107,079 | 3,553 | - |
| Banco Citibank Argentina | Simple credit | Argentine pesos | 29.50% (Fixed rate) | 2019 | 71,628 | 19,638 | - |
| Banco Citibank Argentina | Simple credit | Argentine pesos | 29.25% (Fixed rate) | 2018 | - | 72,323 | - |
| Santander Chile, S.A. | Simple credit | Chilean pesos | 3.6% (Fixed rate) | 2020 | 151,880 | - | - |
| Santander Chile, S.A. | Simple credit | Chilean pesos | 3.6% (Fixed rate) | 2018 | - | 85,918 | - |
| Helm Bank USA | Simple credit | Colombian pesos | 12.29% (Variable rate DTF +5.30% ) | 2020 | - | - | 14,922 |
| | | | | | 18,626,682 | 7,780,920 | 10,851,044 |
| | | | Less - current portion | | (2,588,266) | (1,087,466) | (1,107,238) |
| | | | Long-term debt maturities | | $ 16,038,416 | $ 6,693,454 | $ 9,743,806 |

Annual long-term debt maturities at December 31, 2018 are as follows:

| Year | | Amount |
|---|---|---|
| 2021 | $ | 555,000 |
| 2022 | | 369,898 |
| 2023 | | 13,445,107 |
| 2025 | | 1,668,411 |
| | $ | 16,038,416 |

Bank loans include certain affirmative and negative covenants, such as maintaining certain financial ratios. At December 31, 2018, 2017 and 2016, all such obligations have been duly met.

## 18. Debt instruments

In October 2017, the Entity placed of debt instruments worth $1,000,000 over 5 years as from the issuance date, maturing in September 2022. Those instruments will accrue interest at the 28-day TIIE rate plus 0.90 percentage points; and other debt instrument worth $2,000,000 over 10 years as from the issue date, maturing in September 2027. Those instruments will accrue interest at a fixed rate of 8.85%.

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, the Entity placed of 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 2025. Those instruments will accrue interest at a fixed rate of 8.07%.

The balance at December 31, 2018, 2017 and 2016 amounts to $6,983,244, $6,980,452 and $3,988,845, respectively.

| Year | | Amount |
|---|---|---|
| 2020 | $ | 2,983,244 |
| 2022 | | 1,000,000 |
| 2025 | | 1,000,000 |
| 2027 | | 2,000,000 |
| | $ | 6,983,244 |

## 19. Long-term liabilities, option to sell noncontrolling interest

In October 2014 the Entity acquired Grupo Zena; as a result, it has the right to sell to Alsea its noncontrolling interest for 28.24% in other investors, upon completion of the fourth year after the acquisition (original agreement). In compliance with IFRS 9, Financial Instruments, the present value of the estimated debt that will be liquidated at the time the sale option is exercised should be recognized in accordance with the clauses of the contract. The initial recognition of such debt is recognized as a supplemental equity account and every year its revaluation affects the result for the year.

On October 30, 2018, an agreement was signed for purchase and sale options, termination of the stockholders' agreement and a commitment to sign a new stockholders' agreement, ratified on December 27, 2018, whereby the following agreements were reached:

1. Terminate the original stockholders' agreement and formalize this new agreement.
2. The minority stockholders invested €75 million in Grupo Zena, which resulted in the acquisition of 7.7% of the common stock of Grupo Zena by such minority stockholders.

3. Grupo Zena has the right to sell to Alsea its noncontrolling interest in other investors equal to 21.06%, in April 2019. In compliance with IFRS 9, Financial Instruments, the present value of the estimated debt that will be liquidated at the time the sale option is exercised should be recorded in accordance with the contract clauses. The net amount between termination of the agreement mentioned in the first point and recognition of the new right was recorded net in the consolidated statement of changes in stockholders' equity under Reserve for purchase of noncontrolling interest, for the amount of $659,252.
4. In the new agreement Grupo Zena has the right to sell to Alsea 12.7% of its noncontrolling interest in other investors upon completion of the seventh year after the acquisition; such right will be liquidated through delivery of the variable number of shares of Alsea. Consequently, in accordance with IFRS 9, it is accounted for as a financial derivative that will be settled at the time the sale option is exercised in accordance with the contract clauses. The liability will be restated every year up to the date on which the option is exercised, and the effects generated subsequently will be recognized in the statement of income. The financial liability derived from the sale option as of December 31, 2018 is $11,977.

## 20. Income taxes

The Entity is subject to ISR. Under the ISR Law the rate for 2018, 2017 and 2016 was 30% and will continue to 30% and thereafter. The Entity incurred ISR on a consolidated basis until 2013 with its Mexican subsidiaries. As a result of the 2014 Tax Law, the tax consolidation regime was eliminated, and the Entity and its subsidiaries have the obligation to pay the long-term 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 2016 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.

The ISR liability as of December 31, 2017 is $19,892 related to the effects for benefits and fiscal deconsolidation which will be paid in 2018.

In Chile, in September 2014, the government promulgates in its tax reform increased the rate gradually according to the following 24% in 2016, 25.5% to 2017, 27% to 2018 and to 2019 will be of 27%, based taxation system chose for the years 2018 and 2018. The change in the First Category Tax was pronounced in July 2010.

In Colombia, the applicable tax provisions stipulate that the rate applicable to income tax for taxable years 2018 and 2019 is 33%, 32% for 2020, 31% for 2021 and 30% as of taxable year 2022. Likewise, for taxable bases over $800,000 Colombian pesos, you must pay a 4% surcharge for the year 2018, which will not be applicable as of 2019. In any case, as of the taxable year 2018, the taxable base of the tax Income may not be less than 3.5% of the liquid assets of the immediately previous one, this percentage will be reduced to 1.5% for the taxable years 2019 and 2020 and to 0% from the taxable year 2021.

Additionally, the fiscal losses determined as of 2017 may be compensated with liquid income obtained within the following twelve (12) years. The term to compensate for excess presumptive income will continue to be five (5) years. These tax credits may not be readjusted fiscally.

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 0.25% to the proportional value of equity at the year-end closing and it is considered a single and final payment.

In Spain, tax reforms, which include the reduction of this tax rate 25% in 2018, 2017 and 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

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Current | $ | 836,509 | $ | 985,351 | $ | 825,874 |
| Deferred | | (138,215) | | (149,923) | | (296,641) |
| | $ | 698,294 | $ | 835,428 | $ | 529,233 |

The tax expense attributable to income before ISR differs from that arrived at by applying the 30% statutory rate in 2018, 2017 and 2016 due to the following items:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Statutory income tax rate | 30% | 30% | 30% |
| Non-deductible expenses | 6% | 8% | 7% |
| Effects of inflation and others | 11% | 9% | 5% |
| Fixed asset update | (7%) | (6%) | (6%) |
| Others | (2%) | (1%) | (4%) |
| Effective consolidated income tax rate | 38% | 40% | 32% |

### b. Deferred taxes in the statement of financial position

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

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Deferred (assets) liabilities: | | | | | | |
| Estimation for doubtful accounts and inventory obsolescence | $ | (28,802) | $ | (2,347) | $ | (15,698) |
| Liability provisions | | (743,666) | | (623,225) | | (740,365) |
| Advances from customers | | (38,180) | | (164,635) | | (16,176) |
| Unamortized tax losses | | (586,659) | | (186,952) | | (82,078) |
| Recoverable asset tax | | - | | - | | (12,269) |
| Store equipment, leasehold improvements and property | | 632,843 | | 471,310 | | 769,288 |
| Advance payments | | 73,293 | | 123,515 | | (84,223) |
| Other assets | | - | | - | | (2) |
| | $ | (691,171) | $ | (382,334) | $ | (181,523) |

### 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:

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Deferred tax assets | $ | 2,764,884 | $ | 2,348,434 | $ | 2,068,996 |
| Deferred tax liabilities | | 2,073,713 | | 1,966,100 | | 1,887,473 |
| | $ | (691,171) | $ | (382,334) | $ | (181,523) |

*d. Deferred income tax balances*

| 2018 | Beginning balance | Recognized in profit or loss | Recognized in stockholders' equity | Acquisitions | Ending balance |
|---|---|---|---|---|---|
| **Temporary differences** | | | | | |
| Estimation for doubtful accounts and inventory obsolescence | $ (2,347) | $ (26,455) | $ - | $ - | $ (28,802) |
| Liability provisions | (623,225) | (125,079) | 78,030 | (73,392) | (743,666) |
| Advances from customers | (164,635) | 126,455 | - | - | (38,180) |
| Store equipment, leasehold improvements and property | 471,310 | 30,044 | 196,829 | (65,340) | 632,843 |
| Prepaid expenses | 123,515 | (50,222) | - | - | 73,293 |
| Other assets | - | - | - | - | - |
| | (195,382) | (45,257) | 274,859 | (138,732) | (104,512) |
| **Tax loss carryforwards and unused tax credits** | | | | | |
| Tax loss carryforwards | (186,952) | (92,958) | - | (306,749) | (586,659) |
| | $ (382,334) | $ (138,215) | $ 274,859 | $ (445,481) | $ (691,171) |

| 2017 | Beginning balance | Recognized in profit or loss | Recognized in stockholders' equity | Acquisitions | Ending balance |
|---|---|---|---|---|---|
| **Temporary differences** | | | | | |
| Estimation for doubtful accounts and inventory obsolescence | $ (15,698) | $ 13,351 | $ - | $ - | $ (2,347) |
| Liability provisions | (740,365) | 153,907 | (36,767) | - | (623,225) |
| Advances from customers | (16,176) | (148,459) | - | - | (164,635) |
| Store equipment, leasehold improvements and property | 769,288 | (283,857) | (14,121) | - | 471,310 |
| Prepaid expenses | (84,223) | 207,738 | - | - | 123,515 |
| Other assets | (2) | 2 | - | - | - |
| | (87,176) | (57,318) | (50,888) | - | (195,382) |
| **Tax loss carryforwards and unused tax credits** | | | | | |
| Tax loss carryforwards | (82,078) | (104,874) | - | - | (186,952) |
| Recoverable tax on assets (IMPAC) | (12,269) | 12,269 | - | - | - |
| | (94,347) | (92,605) | - | - | (186,952) |
| | $ (181,523) | $ (149,923) | $ (50,888) | $ - | $ (382,334) |

| 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 | (69,363) | (43,974) | - | 769,288 |
| Prepaid expenses | 71,418 | (155,641) | - | - | (84,223) |
| Other assets | 5,752 | (5,754) | - | - | (2) |
| | 329,303 | (317,203) | (99,276) | - | (87,176) |
| **Tax loss carryforwards and unused tax credits** | | | | | |
| Tax loss carryforwards | (102,640) | 20,562 | - | - | (82,078) |
| Recoverable IMPAC | (12,269) | - | - | - | (12,269) |
| | (114,909) | 20,562 | - | - | (94,347) |
| | $ 214,394 | $ (296,641) | $ (99,276) | $ - | $ (181,523) |

The benefits of restated tax loss carryforwards 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, 2018, are:

| Year of maturity | | Amortizable losses | Country |
|---|---|---|---|
| 2023 | $ | 76,806 | Mexico |
| 2024 | | 78,921 | Mexico |
| 2025 | | 289,433 | Mexico |
| 2026 | | 121,240 | Mexico |
| 2027 | | 121,403 | Mexico |
| 2028 | | 298,802 | Mexico |
| Losses of entities abroad without expiration | | 1,500,860 | Spain |
| Losses of entities abroad without expiration | | 153,838 | Chile |
| Losses of entities abroad without expiration | | 31,679 | Argentina |
| Losses of entities abroad without expiration | | 53,323 | Colombia |
| | $ | 2,726,309 | |

# 21. Employee retirement benefits

## *Defined contribution plans*

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 revenue recognized in the consolidated statements of income and other comprehensive income is $35,411 in 2018.

The expense for employee benefits as of December 31, 2018, 2017 and 2016 was $11,557,626, $10,650,386 and $9,506,774, respectively, not including the cost defined benefit described below.

The net cost for the period related to obligations derived from seniority premiums amounted to ($522), $9,251 and $580 in 2018, 2017 and 2016, 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 2017.

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, 2018, 2017 and 2016, 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, 2018, 2017 and 2016, 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

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | $ 1,987,857 | $ 1,540,403 | $ 2,547,842 |
| Loans and accounts receivable at amortized cost | 1,025,118 | 1,250,588 | 953,638 |
| **Financial liabilities at amortized cost** | | | |
| Suppliers | 4,457,901 | 3,960,806 | 3,901,972 |
| Factoring of suppliers | 757,976 | 573,097 | 239,907 |
| Accounts payable and accrued liabilities | 679,767 | 445,594 | 669,249 |
| Current maturities of long-term debt | 2,588,266 | 1,087,466 | 1,107,238 |
| Current maturities of financial lease liabilities | 6,799 | 6,799 | 6,799 |
| Long-term debt, not including current maturities | 16,038,416 | 6,693,454 | 9,743,806 |
| Non-current financial lease liabilities | 284,375 | 294,644 | 300,835 |
| Debt instruments | 6,983,244 | 6,980,452 | 3,988,845 |

### c. Objectives of managing financial risks

Among the main associated financial risks that the Entity has identified and to which it is exposed are: (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 consolidated 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, 2018, 2017 and 2016. 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, 2018, 2017 and 2016.

| | | | Underlying / reference variable | | | Notional amount/face value (thousands of USD) | | | Fair value (thousands of USD) | | | Amounts of maturities |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Type of derivative, security or contract** | **Position** | **Objective of the hedging** | **31/12/2018 current** | **31/12/2017 previous** | **31/12/2016 previous** | **31/12/2018 current** | **31/12/2017 previous** | **31/12/2016 previous** | **31/12/2018 current** | **31/12/2017 previous** | **31/12/2016 previous** | **(thousands of USD)** |
| Forwards | Long | Economic | 19.6512 USDMXN | 19.7354 USDMXN | 20.73 USDMXN | 62,650 | 50,050 | 56,125 | $ 147 | $ (46) | $ (2,122) | 62,650 |
| Options | Long | Economic | 19.6512 USDMXN | 19.7354 USDMXN | 20.73 USDMXN | 56,400 | 75,950 | 42,100 | $ 18,880 | $ (1,016) | $ 4,909 | 56,400 |

1. Foreign currency sensitivity analysis

At December 31, 2018, 2017 and 2016, the Entity has contracted hedging in order to purchase US dollars for the next 12 months, a total of $119, $126 and $98 million dollars, respectively, at the average exchange rate of $19.16, $18.82 and $19.21 pesos per US dollar, respectively the valuation is based on an average exchange rate of $19.65, $18.50 and $20.75, pesos per US dollar, respectively, over the next 12 months as of December 31, 2018, 2017 and 2016. The initial price of currency derivatives is $-19.0, $48.5 and $46.4 million Mexican pesos, respectively, 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, 2018 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, 2018 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, 2018, 2017 and 2016, a total of 465, 1,066 and 534,220 derivative financial instrument operations (forwards and options) were carried out, respectively, for a total of 275.6, 402.6, and 68.6 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, 2018, 2017 and 2016, Alsea has contracted DFI's to purchase US dollars in the next twelve months for a total of approximately $119, $126 and $98 million USD, at the average exchange rate of $19.16, $18.82 and $19.21 pesos to the dollar, respectively.

At December 31, 2018, 2017 and 2016, 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.

At December 31, 2018, the Entity has a total debt of $25,610 million pesos, this debt was contracted at a fixed rate and a variable rate, in addition to the above, it was decided to apply a risk management strategy in order to you mitigate the fluctuations of the interest rate staying in a mix of rates where 36% is fixed at a weighted rate of 7.67%, and 64% at a variable rate, this strategy has generated a positive result for the Entity.

- ***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, 2018, 2017 and 2016.

| | | | Underlying / reference variable | | | Notional amount/face value (thousands of USD) | | | Fair value (thousands of USD) | | | Amounts of maturities |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Type of derivative, security or contract** | **Position** | **Objective of the hedging** | **31/12/2018 current** | **31/12/2017 previous** | **31/12/2016 previous** | **31/12/2018 current** | **31/12/2017 previous** | **31/12/2016 previous** | **31/12/2018 current** | **31/12/2017 previous** | **31/12/2016 previous** | **(thousands of USD)** |
| IRS Plain Vanilla | Long | Coverage | 8.5956% - TIIE 28 d | 7.62% - TIIE 28 d | 6.11% - TIIE 28 d | 187,853 | 199,046 | 119,011 | $ 20,413 | $ 20,650 | $ 20,216 | 187,853 |
| IRS Plain Vanilla | Long | Economic | 8.5956% - TIIE 28 d | 7.62% - TIIE 28 d | 6.11% - TIIE 28 d | 107,326 | 113,337 | 37,928 | $ (7,251) | $ (5,160) | $ (2,295) | 107,326 |
| KO Out IRS | Long | Economic | 8.5956% - TIIE 28 d | 7.62% - TIIE 28 d | 6.11% - TIIE 28 d | - | - | - | $ - | $ - | $ - | - |
| Limited IRS | Long | Economic | 8.5956% - TIIE 28 d | 7.62% - TIIE 28 d | 6.11% - TIIE 28 d | - | - | 10,453 | $ - | $ - | $ - | - |
| Capped IRS | Long | Economic | 8.5956% - TIIE 28 d | 7.62% - TIIE 28 d | 6.11% - TIIE 28 d | 33,263 | 35,469 | 14,905 | $ (53) | $ 402 | $ 138.6 | 33,263 |
| IRS Plain Vanilla | Long | Coverage | 8.5956% - TIIE 28 d | 7.62% - TIIE 28 d | EURIBOR 1M | - | 60,161 | 39,427 | $ - | $ (189) | $ (27) | - |

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, 2018 close, the increase in financial costs is of approximately $512 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, with approximately 64% coverage of the debt.
- A 150 bps increase in the 28-day TIIE rate represents an increase in the financial cost of approximately $384 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 $256 million.

The previous scenarios were carried out on the bank and stock market debt contracted in Mexican pesos with 28-day TIIE floating rate, which represents about 73% of the total debt contracted by the Entity.

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

The 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, 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, 2018, 2017 and 2016 closing, the Entity has incurred in 13 margin calls just in 2018, and holds 10. 2 million US dollars securities pledged as a guarantee by a counterparty with which it may have carried out interest rate hedging operations.

At December 31, 2018, 2017 and 2016, 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, 2018, 2017 and 2016, that risk amounts to $3,012,975, $2,790,991 and $3,501,480, 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 Entity 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.

### *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, 2018** | **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 | 9.53% | $ 3,093,379 | $ 1,090,172 | $ 2,726,458 | $ 6,358,985 | $ 8,070,444 | $ 21,339,438 |
| Debt instruments | 9.18% | 640,446 | 3,397,887 | 353,787 | 1,325,103 | 3,789,577 | 9,506,800 |
| Financial leasing | 4.00% | 32,398 | 32,398 | 32,398 | 32,398 | 472,734 | 602,326 |
| Derivatives | | 10,361 | - | - | - | - | 10,361 |
| Suppliers | | 4,457,901 | - | - | - | - | 4,457,901 |
| Factoring of suppliers [(1)] | | 757,976 | - | - | - | - | 757,976 |
| Total | | $ 8,992,461 | $ 4,520,457 | $ 3,112,643 | $ 7,716,486 | $ 12,332,755 | $ 36,674,802 |

| **As of December 31, 2017** | 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 | 8.25% | $ 1,744,175 | $ 3,998,021 | $ 2,158,034 | $ 781,261 | $ 772,635 | $ 9,454,126 |
| Debt instruments | 8.65% | 589,150 | 589,150 | 3,569,602 | 337,600 | 4,337,600 | 9,423,102 |
| Financial leasing | 4.00% | 32,398 | 32,398 | 32,398 | 32,398 | 508,000 | 637,592 |
| Derivatives | | 48,516 | - | - | - | - | 48,516 |
| Suppliers | | 3,960,806 | - | - | - | - | 3,960,806 |
| Factoring of suppliers [(1)] | | 573,097 | - | - | - | - | 573,097 |
| Total | | $ 6,948,142 | $ 4,619,569 | $ 5,760,034 | $ 1,151,259 | $ 5,618,235 | $ 24,097,239 |

| 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 |
| Factoring of suppliers [(1)] | | | 239,907 | | - | | - | | - | | - | | 239,907 |
| Total | | $ | 6,126,264 | $ | 1,726,418 | $ | 3,556,124 | $ | 4,694,799 | $ | 6,949,236 | $ | 23,052,841 |

(1) The policy of payment to suppliers is 90 days, for which the Entity signed financial factoring contracts backed by credit lines with financial institutions, through which a supplier can contact the financial institution to collect the any invoice in particular, previously approved by Alsea, before the payment date, which ends the payment obligation of Alsea to the supplier; in turn, Alsea will settle the balance to the financial institution on the due date for the invoice, in accordance with the terms previously agreed with the supplier. This transaction has no cost to Alsea, provided that the balances are liquidated in a timely manner, the balances not settled in a timely manner will be subject to a default interest that will be determined by the financial institution; Additionally, Alsea receives a commission for the balances discounted by the suppliers. These amounts have been classified as factoring of suppliers in the statement of financial position.

### *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 |
|---|---|---|---|---|---|---|---|
| | | 12/31/2018 | | 12/31/2017 | | 12/31/2016 | |
| 1) Forwards and currency options agreements | $ | 147 | $ | (46) | $ | 2,787 | 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 | $ | 18,880 | $ | 15,703 | $ | 18,032 | 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, 2018, 2017 and 2016, 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:

| | 12/31/2018 | | 12/31/2017 | | 12/31/2016 | |
|---|---|---|---|---|---|---|
| ***Financial liabilities*** | **Carrying avalue** | **Fair value** | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** |
| **Financial liabilities maintained at amortized cost:** | | | | | | |
| Suppliers | $ 4,457,901 | $ 4,457,901 | $ 3,960,806 | $ 3,960,806 | $ 3,901,972 | $ 3,901,972 |
| Factoring of suppliers | 757,976 | 757,976 | 573,097 | 573,097 | 239,907 | 239,907 |
| Accounts payable and accrued liabilities | 679,767 | 679,767 | 445,594 | 445,594 | 669,249 | 669,249 |
| Bank loans | 2,588,266 | 2,702,880 | 1,087,466 | 1,095,114 | 1,107,238 | 1,115,556 |
| Current maturities of financial lease liabilities | 6,799 | 6,799 | 6,799 | 6,799 | 6,799 | 6,799 |
| Long-term bank loans | 16,038,416 | 16,038,416 | 6,693,454 | 6,693,454 | 9,743,806 | 9,743,806 |
| Non-current financial lease liabilities | 284,375 | 284,375 | 294,644 | 294,644 | 300,835 | 300,835 |
| Debt instruments | 6,983,244 | 6,809,099 | 6,980,452 | 6,843,439 | 3,988,845 | 4,037,222 |
| Total | $ 31,796,744 | $ 31,737,213 | $ 20,042,312 | $ 19,912,947 | $ 19,958,651 | $ 20,015,346 |

| ***Financial liabilities 2018*** | **Level 2** |
|---|---|
| **Financial liabilities maintained at amortized cost:** | |
| Bank loans | $ 2,588,266 |
| Current maturities of financial lease liabilities | 6,799 |
| Long-term bank loans | 16,038,416 |
| Non-current financial lease liabilities | 284,375 |
| Debt instruments | 6,983,244 |
| Total | $ 25,901,100 |

| ***Financial liabilities 2017*** | **Level 2** |
|---|---|
| **Financial liabilities maintained at amortized cost:** | |
| Bank loans | $ 1,087,466 |
| Current maturities of financial lease liabilities | 6,799 |
| Long-term bank loans | 6,693,454 |
| Non-current financial lease liabilities | 294,644 |
| Debt instruments | 6,980,452 |
| Total | $ 15,062,815 |

| ***Financial liabilities 2016*** | **Level 2** |
|---|---|
| **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 |

## 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 meet the requirements related to financial instruments, will come from the resources generated by Alsea.

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 actions | | Thousands of pesos social capital | | Premium in issuance of shares |
|---|---|---|---|---|---|
| Figures as of January 1, 2016 | 837,486,444 | $ | 478,203 | $ | 8,613,587 |
| Placement of actions | (3,207,245) | | (1,604) | | 12,133 |
| Figures as of December 31, 20166 | 834,279,199 | | 476,599 | | 8,625,720 |
| Placement of actions | (1,461,008) | | (730) | | - |
| Figures as of December 31, 2017 | 832,818,191 | | 475,869 | | 8,625,720 |
| Placement of actions | 2,821,991 | | 1,411 | | - |
| Figures as of December 31, 2018 | 835,640,182 | $ | 477,280 | $ | 8,625,720 |

As discussed in Note 19, Grupo Zena has the sale option of the noncontrolling interest of Alsea. On October 30, 2018, Alsea and the investors of Grupo Zena entered into a new agreement for purchase and sale options, termination of the stockholders' agreement and a commitment to sign a new stockholders' agreement, which was ratified on December 27, 2018, and stipulates the termination of the original stockholders' agreement and the formalization of this new agreement, whereby Grupo Zena has the right to sell to Alsea its noncontrolling interest in other investors equal to 21.06% of the equity of Grupo Zena. The net amount between the termination of the original agreement and recognition of the new right was recorded net in the consolidated statement of changes in stockholders' equity under Reserve for purchase of noncontrolling interest, in the amount of $659,252.

In April 2018, Alsea declared a dividend payment of $654,091 with a charge to the after-tax earnings account, which is to be paid against net earnings at $0.78 (zero pesos seventy and eight cents) per share. The Treasury society must make payment on April 23, 2018 for $654,091.

In June 2017, Alsea declared a dividend payment of $570,234 with a charge to the after-tax earnings account, which is to be paid against net earnings at $0.68 (zero pesos sixty and eight cents) per share. The Treasury society must make payment on May 31, 2018 for $567,763.

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 $0.77 (zero pesos fifty cents) per share. The Treasury society must make payment on May 13, 2017 for $644,771.

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. 5% of net earnings for the period must be set aside to create the legal reserve until it reaches 20% of the capital stock. At December 31, 2018, 2017 and 2016, the legal reserve amounted to $100,736, which amount does not reach the required 20%.

II. Dividends paid out of accumulated profits will be free of ISR if they come from the CUFIN and for the surplus 30% will be paid on the result of multiplying the dividend paid by the update factor. The tax arising from the payment of the dividend that does not come from the CUFIN will be charged to the Entity and may be credited against the corporate ISR for the following two years.

## 24. Non-controlling interest

### *a. Following is a detail of the non-controlling interest.*

| | | Amount |
|---|---|---|
| Balances at January 1, 2016 | $ | 899,920 |
| Equity in results for the year ended December 31, 2016 | | 130,019 |
| Capital Reimbursement of Food Project, S.L. [(1)] | | (45,178) |
| Other movements in capital | | 28,687 |
| Ending balance at December 31, 2016 | | 1,013,448 |
| | | |
| Equity in results for the year ended December 31, 2017 | | 162,651 |
| Capital Reimbursement of Food Project, S.L. | | (159,616) |
| Capital contributions in subsidiaries | | 42,682 |
| Other movements in capital | | 62,401 |
| Ending balance at December 31, 2017 | | 1,121,566 |
| | | |
| Equity in results for the year ended December 31, 2018 | | 186,071 |
| Capital Reimbursement of Food Project, S.L. | | (66,052) |
| Capital contributions in Food Service Project, S.L | | 613,029 |
| Capital contributions in subsidiaries | | 21,627 |
| Other movements in capital | | 2,501 |
| Ending balance at December 31, 2018 | $ | 1,878,742 |

(1) On January 20, 2016, Food Project, S.L., 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. Following is the detail of the Non-Controlling interest of the main subsidiaries of the Entity:*

| | | Percentages of the non-controlling interest | | | Income (loss) attributable to the non-controlling interest | | | Accumulated non-controlling interest | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Subsidiaria** | **Country** | **31/12/2018** | **31/12/2017** | **31/12/2016** | **31/12/2018** | **31/12/2017** | **31/12/2016** | **31/12/2018** | **31/12/2017** | **31/12/2016** |
| Food Service Project, S.L. (Grupo Zena) | Spain | 33.76% | 28.24% | 28.24% | $ 200,690 | $ 192,660 | $ 163,838 | $ 1,704,079 | $ 978,346 | $ 866,843 |
| Operadora de Franquicias Alsea, S.A. de C.V. | Mexico | 20.00% | 20.00% | 20.00% | (8,350) | (18,915) | (30,924) | 63,718 | 68,446 | 86,042 |
| Estrella Andina, S.A.S. | Colombia | 30.00% | 30.00% | 30.00% | (10,936) | (6,606) | (2,705) | 65,114 | 62,236 | 40,193 |

## 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, 2018, 2017 and 2016, 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:

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Net profit (in thousands of Mexican pesos): | | | | | | |
| Attributable to shareholders | $ | 953,251 | $ | 1,089,498 | $ | 996,471 |
| Shares (in thousands of shares): | | | | | | |
| Weighted average of shares outstanding | | 835,640 | | 832,818 | | 834,279 |
| Basic and diluted net income per share of continuous and discontinued operations (cents per share) | $ | 1.14 | $ | 1.31 | $ | 1.19 |
| Basic and diluted net income per share of continuous operations (cents per share) | $ | 1.14 | $ | 1.31 | $ | 1.19 |

## 26. Revenues

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Revenues from the sale of goods | $ | 44,991,698 | $ | 41,378,982 | $ | 36,682,433 |
| Services | | 742,915 | | 767,169 | | 652,106 |
| Royalties | | 421,977 | | 382,970 | | 367,328 |
| Total | $ | 46,156,590 | $ | 42,529,121 | $ | 37,701,867 |

## 27. Cost of sales

The costs and expenses included in other operating costs and expenses in the consolidated statements of income are as follows:

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Food and beverage of costs | $ | 13,438,000 | $ | 12,467,682 | $ | 11,406,404 |
| Royalties of costs | | 158,930 | | 145,000 | | 146,036 |
| Other costs | | 590,578 | | 310,507 | | 227,190 |
| Total | $ | 14,187,508 | $ | 12,923,189 | $ | 11,779,630 |

## 28. Other operating costs and expenses

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Employee benefits | $ | 11,557,626 | $ | 10,650,386 | $ | 9,506,774 |
| Advertising | | 1,644,825 | | 1,614,118 | | 1,449,137 |
| Services | | 2,533,938 | | 2,033,239 | | 1,705,631 |
| Royalties | | 1,460,437 | | 1,389,122 | | 1,183,173 |
| Pre-operative | | 185,288 | | 178,108 | | 122,959 |
| Other | | 4,266,634 | | 3,770,159 | | 3,414,422 |
| Total | $ | 21,648,748 | $ | 19,635,132 | $ | 17,382,096 |

## 29. Other (income) expenses, net

It is integrated as follows:

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Legal expenses | $ | 3,305 | $ | 42,505 | $ | 53,487 |
| (Gain) loss on fixed asset disposals, net | | (70,374) | | 79,378 | | 3,885 |
| PTU on tax base | | 22,205 | | 29,691 | | 23,347 |
| Inflation, interest on tax refund and other income not taxable | | 1,301 | | (52,534) | | 26,517 |
| Gain on disposal of investment of associated - Grupo Axo | | - | | (608,817) | | - |
| Group VIPS and Clover acquisition expenses | | 5,144 | | - | | - |
| Other expenses (income), net | | 5,695 | | (17,571) | | 3,415 |
| Total | $ | (32,724) | $ | (527,348) | $ | 110,651 |

## 30. Balances and transactions with related parties

### *Officer compensations and benefits*

The total amount of compensation paid by the Entity to its main advisors and officers for the nine-month period ended December 31, 2018, 2017 and 2016 was of approximately $185,740, $183,820 and $231,750, respectively.

This amount includes emoluments determined by the General Assembly of Shareholders of the Entity for the performance of their positions during said fiscal year, as well as salaries and salaries.

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

## 31. Financial information by segments

The Entity is organized into four large operating divisions comprised of sales of food and beverages in Mexico and South America (LATAM - Argentina, Chile, Colombia, Uruguay and Brazil) and Spain, 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 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, 2018, 2017 and 2016 is as follows:
(figures in millions of pesos).

Figures in millions of pesos as of December 31, division:

| | Food and beverages Mexico | | | Food and beverages LATAM | | | Food and beverages Spain | | | Consolidated | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Income | | | | | | | | | | | | |
| From third parties | $ 25,462 | $ 23,676 | $ 21,986 | $ 10,832 | $ 10,283 | $ 8,124 | $ 9,862 | $ 8,570 | $ 7,591 | $ 46,156 | $ 42,529 | $ 37,701 |
| Income | 25,462 | 23,676 | 21,986 | 10,832 | 10,283 | 8,124 | 9,862 | 8,570 | 7,591 | 46,156 | 42,529 | 37,701 |
| Costs | 8,032 | 7,392 | 7,137 | 3,430 | 3,179 | 2,566 | 2,726 | 2,352 | 2,076 | 14,188 | 12,923 | 11,779 |
| Operating costs | 11,530 | 10,759 | 9,701 | 5,906 | 5,541 | 4,331 | 5,220 | 4,492 | 4,015 | 22,656 | 20,792 | 18,047 |
| EBITDA store | 5,900 | 5,525 | 5,148 | 1,496 | 1,563 | 1,227 | 1,916 | 1,726 | 1,500 | 9,312 | 8,814 | 7,875 |
| Depreciation and amortization | 2,123 | 1,966 | 1,757 | 572 | 463 | 331 | 419 | 323 | 300 | 3,114 | 2,752 | 2,388 |
| Non-operating expenses | 1,553 | 1,033 | 1,643 | 803 | 862 | 641 | 549 | 452 | 437 | 2,905 | 2,347 | 2,721 |
| Utility operation | 2,224 | 2,526 | 1,748 | 121 | 238 | 255 | 948 | 951 | 763 | 3,293 | 3,715 | 2,766 |
| Interest paid | | | | | | | | | | 1,628 | 1,307 | 882 |
| Earned interests | | | | | | | | | | (57) | (45) | (37) |
| Other financial expenses | | | | | | | | | | (115) | 364 | 335 |
| | | | | | | | | | | 1,456 | 1,626 | 1,180 |
| Participation in associates | | | | | | | | | | - | - | 68 |
| Income taxes | | | | | | | | | | 698 | 835 | 529 |
| Consolidated net income for the year | | | | | | | | | | 1,139 | 1,253 | 1,126 |
| Noncontrolling interest | | | | | | | | | | 186 | 163 | 130 |
| Majority net income | | | | | | | | | | $ 953 | $ 1,090 | $ 996 |

| | Food and beverages Mexico | | | Food and beverages LATAM | | | Food and beverages Spain | | | Consolidated | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Assets | $ 23,610 | $ 24,377 | $ 24,400 | $ 5,469 | $ 5,135 | $ 3,772 | $ 6,652 | $ 5,265 | $ 4,441 | $ 35,731 | $ 34,777 | $ 32,613 |
| Investment in productive assets | | | | | | | | | | | | |
| Investment in associates | 14 | - | 1,036 | - | - | - | - | - | - | 14 | - | 1,036 |
| Investment in Fixed Assets and Intangible | 3,014 | 3,136 | 3,185 | 1,155 | 985 | 577 | 14,428 | 653 | 787 | 18,597 | 4,774 | 4,549 |
| Total assets | $ 26,638 | $ 27,513 | $ 28,621 | $ 6,624 | $ 6,120 | $ 4,349 | $ 21,080 | $ 5,918 | $ 5,228 | $ 54,342 | $ 39,551 | $ 38,198 |
| Total liability | $ 25,315 | $ 20,347 | $ 20,928 | $ 1,638 | $ 4,244 | $ 3,080 | $ 13,938 | $ 4,358 | $ 4,063 | $ 40,890 | $ 28,949 | $ 28,071 |

## 32. Foreign currency position

Assets and liabilities expressed in US dollars, shown in the reporting currency at December 31, 2018, 2017 and 2016, are as follows:

| | Thousands of dollars 2018 | Thousands of dollars 2017 | Thousands of dollars 2016 |
|---|---|---|---|
| Assets | $ 2,331,077 | $ 1,575,514 | $ 1,776,641 |
| Liabilities | (14,955,348) | (6,307,317) | (5,891,935) |
| Net monetary liability position | $ (12,624,271) | $ (4,731,803) | $ (4,115,294) |

The exchange rate to the US dollar at December 31, 2018, 2017 and 2016 was $19.65, $19.74 and $20.66, respectively. At April 1, 2019, date of issuance of the consolidated financial statements, the exchange rate was $19.37 to the US dollar.

The exchange rates used in the different conversions to the reporting currency at December 31, 2018, 2017 and 2016 and at the date of issuance of these consolidated financial statements are shown below:

| Country of origin | Currency | Closing exchange rate | Issuance April 1, 2019 |
|---|---|---|---|
| **2018** | | | |
| Argentina | Argentinian peso (ARP) | 0.5192 | 0.4481 |
| Chile | Chilean peso (CLP) | 0.0283 | 0.0285 |
| Colombia | Colombian peso (COP) | 0.0061 | 0.0061 |
| Spain | Euro (EUR) | 22.5340 | 21.7624 |

| Country of origin | Currency | Closing exchange rate |
|---|---|---|
| **2017** | | |
| Argentina | Argentinian peso (ARP) | 1.0509 |
| Chile | Chilean peso (CLP) | 0.0321 |
| Colombia | Colombian peso (COP) | 0.0066 |
| Spain | Euro (EUR) | 23.6587 |

| Country of origin 2016 | Currency | Closing exchange rate |
|---|---|---|
| Argentina | Argentinian peso (ARP) | 1.3012 |
| Chile | Chilean peso (CLP) | 0.0308 |
| Colombia | Colombian peso (COP) | 0.0067 |
| Spain | Euro (EUR) | 21.7323 |

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 | |
| Asian Food Ltda, | Chile | CLP | CLP | MXP |
| Gastronomía Italiana en Colombia, S.A.S. | 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 |

## 33. Commitments and contingent liabilities

### Commitments:

a) The Entity leases locales to house its stores and distribution centers, as well as certain equipment further to the lease agreements entered into for defined periods (see Note 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 normal 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. As of December 31, 2018, 2017 and 2016, these obligations have been met.

## Contingent liabilities:

In September 2014, the Secretary of Finance of Mexico City determined the company Italcafé, S.A. of C.V. taxable income with respect to deposits made to their bank accounts derived from the operation of several restaurants owned by Grupo Amigos de San Ángel, S.A. of C.V., notwithstanding that said income was accumulated by this last company giving it all the corresponding tax effects. Currently the subject is under study at the Attorney General's Office of Mexico City.

It is important to mention that the previous owners of Italcafé would assume the economic effects derived from the aforementioned tax credit, under the terms and conditions established in the agreements that Alsea entered into with the aforementioned sellers.

# 34. Subsequent events

On February 18, 2019, Alsea entered into a development contract with Starbucks Coffee Company to obtain the total license and acquire operations of stores and corporate operations of Starbucks in Holland, Belgium and Luxembourg. This transaction resulted in the acquisition by Alsea of 13 corporate units in Holland, and the rights to provide services to licensed operators in these countries (95 stores licensed in these countries), and also to operate and generate expansion opportunities for Starbucks stores in such countries. Alsea concluded the purchase process on February 25, 2019.

# 35. Consolidated financial statement authorization

The consolidated financial statements were authorized for issuance on April 1, 2019 by Mr. Rafael Contreras Grosskelwing, 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.

# Fundación Alsea, A. C

Financial Statements for the Years Ended December 31, 2018 and 2017, and Independent Auditors' Report Dated March 15, 2019

# Fundación Alsea, A. C
# Independent Auditors' Report and Financial Statements for 2018 and 2017

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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, 2018 and 2017, 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, A. C. as of December 31, 2018 and 2017, and its financial performance and its cash flows, for the years then ended in accordance with Mexican Financial Reporting Standards ("MFRS").

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

*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 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 ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and asses the risks of material misstatement of the 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 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 of the Foundation 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.

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

C. P. C. Juan Carlos Reynoso Degollado
March 15, 2019

FUNDACIÓN ALSEA, A. C.

# Statements of Financial Position

As of December 31, 2018 and 2017

(In thousands of Mexican pesos)

| ASSETS | | 2018 | | 2017 |
|---|---|---|---|---|
| **Current assets:** | | | | |
| Cash and cash equivalents | $ | 53,577 | $ | 55,139 |
| Accounts receivable | | 1,993 | | 659 |
| Recoverable taxes | | 659 | | 50 |
| Total current assets | | 56,229 | | 55,848 |
| Other assets, net | | - | | 27 |
| Total | $ | 56,229 | $ | 55,875 |
| **LIABILITIES AND PATRIMONY** | | | | |
| **Current liabilities:** | | | | |
| Trade accounts payable | $ | 292 | $ | 1,521 |
| Taxes and accrued expenses | | 767 | | 13,911 |
| Total liabilities | | 1,059 | | 15,432 |
| Unrestricted patrimony | | 55,170 | | 40,443 |
| Total | $ | 56,229 | $ | 55,875 |

See accompanying notes to financial statements.

# Statements of Activities

For the years ended December 31, 2018 and 2017
(In thousands of Mexican pesos)

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Revenues: | | | | |
| Cash donations income | $ | 64,770 | $ | 41,050 |
| Interest income | | 3,283 | | 3,776 |
| | | 68,053 | | 44,826 |
| Expenses: | | | | |
| General expenses | | 51,963 | | 61,502 |
| Value added tax | | - | | 587 |
| Administrative expenses | | 1,781 | | 1,302 |
| | | 53,744 | | 63,391 |
| Other (expenses) – net | | 418 | | (34) |
| Net changes in patrimony | | 14,727 | | (18,599) |
| Income taxes | | - | | (307) |
| Unrestricted patrimony at beginning of the year | | 40,443 | | 59,349 |
| Unrestricted patrimony at end of the year | $ | 55,170 | $ | 40,443 |

See accompanying notes to financial statements.

# Statements of Cash Flows

For the years ended December 31, 2018 and 2017
(In thousands of Mexican pesos)

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Operating activities: | | | | |
| Net changes in patrimony before income taxes | $ | 14,727 | $ | (18,599) |
| Items related to investing activities: | | | | |
| Amortization of other assets | | 27 | | 80 |
| (Increase) decrease in: | | | | |
| Accounts receivable | | (1,334) | | 978 |
| Recoverable taxes | | (609) | | (1) |
| Increase (decrease) in: | | | | |
| Trade accounts payable | | (1,229) | | 1,504 |
| Taxes and accrued expenses | | (13,144) | | 12,863 |
| Income taxes | | - | | (307) |
| Net cash flows used in operating activities | | (1,562) | | (3,482) |
| Net increase in cash and cash equivalents | | (1,562) | | (3,482) |
| Cash and cash equivalents at beginning of the year | | 55,139 | | 58,621 |
| Cash and cash equivalents at end of the year | $ | 53,577 | $ | 55,139 |

See accompanying notes to financial statements.

# Notes to Financial Statements

For the years ended December 31, 2018 and 2017
(In thousands of Mexican pesos)

## 1. Activities

Fundación Alsea, A. C. (the “Foundation”), whose main objective is to contribute to food safety 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 (Servicio de Administración Tributaria, for its name in Spanish – “SAT”). Accordingly, donations are tax deductible to the donor; the list of entities eligible to receive donations was published in the Official Gazette on January 9, March 16, July 21 and October 12, 2018 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 have 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. ***Financial Statements of Entities for Non-Profit Purposes -*** The Foundation has adopted the provisions of NIF A-2 “Basic Postulates”, B-16 “Financial Statements of Nonprofit Purposes” and E-2 “Donations received and granted by entities for non-profit purposes”; consequently, it may not be comparable with financial statements of profitable entities.

c. ***Monetary unit of the financial statements -*** The financial statements and notes as of December 31, 2018 and 2017 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, 2018 and 2017 were 12.71% and 9.87% % 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, 2018 and 2017 were 4.83% and 6.77%, respectively.

d. ***Income from donations -*** Donations received must be recognized as revenue for the period, in addition to recognizing increase in assets or decreases in liabilities depending on how donations were received.

   The donations received in cash are recognized at the value of cash or cash equivalents received, or at the amount of the unconditional donation pledges received that are accrued and are due. Donations in assets and the cancellation of liabilities are recognized at their fair value.

e. ***Classification of costs and expenses -*** Costs and expenses are presented according to their function because management considers that it provides useful information to the users of the financial statements.

f. ***Net change in patrimony –*** Net change in patrimony is the change in patrimony during an accounting period for a foundation arising from its revenues, costs and expenses.

g. ***Patrimony -*** Patrimony is classified according to the restrictions that the donors established on the assets donated.

## 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:

a. ***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.

b. ***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.

c. ***Other assets -*** Represent the costs incurred by third parties for licensing and software development and that give rise to future economic benefits because they meet certain requirements for recognition as assets.

   Amortization of intangible assets is calculated on a straight line basis over the term of the rights that are four years and is included in the depreciation and amortization of the activity statement.

d. ***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.

e. ***Income from cash donations and interest –*** Income from donations received are recognized at the time the cash is received.

   Interest income are recognized as they accrue.

## 4. Cash and cash equivalents

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Cash | $ | - | $ | 331 |
| Cash equivalents – Money market funds | | 53,577 | | 54,808 |
| | $ | 53,577 | $ | 55,139 |

## 5. Income taxes

Being a non-profit association in accordance with the provisions of the Income Tax Law ("ISR" for its acronym in Spanish), 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.

In fiscal year 2017, the Foundation made a non-deductible payment, which caused a tax of $307.

## 6. Authorization to issue the financial statements

On March 15, 2019, 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.

- Cotizamos en el IPC Sustentable de la BMV desde 2013.
- CEMEFI nos ha reconocido por ocho años consecutivos como Empresa Socialmente Responsable
- Estamos adheridos al Pacto Mundial de las Naciones Unidas desde 2011.
- Este año, ingresamos al Dow Jones Sustainability Index.