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

Consolidated Financial Statements for the Years Ended December 31, 2019, 2018 and 2017, and Independent Auditors' Report Datsed March 31, 2020

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

Independent Auditors' Report and Consolidated Financial Statements for 2019, 2018 and 2017

Contents **Page**

Deloitte.

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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, 2019, 2018 and 2017, 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 consolidated 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, 2019, 2018 and 2017, and their consolidated financial performance and their consolidated 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 Consolidated Financial Statements* section of our report. We are independent of the Entity in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (*IESBA Code) 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.

Emphasis paragraph

We wish to draw attention to Note 37, Subsequent events, to the accompanying consolidated financial statements, in which management describes the effects known at the date of these consolidated financial statements regarding the events arising from the COVID-19 pandemic on its operations and the Entity's liquidity during the initial months of 2020. It also describes the Entity's immediate plans, as well as its inability to reliably assess the potential future effects on its financial position as a result of COVID-19, more specifically the determination of the recoverable value of assets, especially surplus value, deferred tax assets and other intangible assets, and the periods initially established for their recovery, due to the short amount of time elapsed and the considerable uncertainty derived from this extraordinary sanitary emergency. Our opinion has not been modified in relation to this matter.

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.

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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 4j to the consolidated financial statements, the Entity has recorded an amount of $32,469 (thousand) for impairment as of December 31, 2019.

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 €471 million after debt payable in cash (equivalent to MX $10,618,697 (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. In December 2019, the measurement period for the acquisition of Sigla, S.A. ended, so there is a risk that the Entity will not properly record the values of the net assets acquired in accordance with IFRS 3, *Business Combination*.

Our valuation specialists assisted us in the independent evaluation of the methodology used in the allocation of the acquisition cost on the values of the net assets acquired at the acquisition date in accordance with IFRS 3 and review the disclosures included in Note 18 to the consolidated financial statements. The results of our audit tests were reasonable.

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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 April 2019, which was terminated and formalized through a new agreement to be made in June 2022. In compliance with IFRS 9, Financial Instruments, the present value of the agreed debt must be recorded at € 111 million, 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, having commitment dates to carry out this sale in a period of time from the year 2021 to 2025, depending on the minority partner, 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 no controlling 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 22 to the consolidated financial statements, transactions originated from such acquisitions. The results of our audit tests were reasonable.

Implementation of IFRS 16, Leases

The Entity has adopted the new provisions of IFRS 16, *Leases*. Given that the Entity has more than 4,400 establishments, a risk exists regarding the appropriate recognition and completeness of right-of-use assets and lease liabilities in the consolidated statements of changes in financial position, initially measured at the present value of future lease payments.

The audit procedures we applied to cover the risk derived from the implementation of IFRS 16 included the following:

Perform inventories of lease contracts subject to the analysis of IFRS 16, which were executed for periods of more than one year and are materially significant, assess the fairness of the utilized discount rate. For this purpose, we requested the assistance of our experts in this area to review the correct recording in accounting of the initial effects (retrospective application) and verify the correct recognition and classification of the lease liability.

The results of our audit tests were fair and we agree that the utilized assumptions, including the discount rate and the recognition and classification of right-of-use assets and lease liabilities, are appropriate.

Information Other Than the Consolidated Financial Statements and Independent Auditors' Report

The administration is responsible for the other information. The other information includes the information included in the annual report (but does not include the consolidated financial statements, nor our audit report) that the Entity is obliged to prepare in accordance with the General Provisions Applicable to Issuers and other Market Participants of Securities in Mexico The annual report is expected to be available for our reading after the date of this 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 will be to read the annual report and other information, when it is available, and when we do so, consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or that appears to contain a material error. If, based on the work we have carried out, we conclude that there is a material error in the other information, we would have to report it in the declaration on the annual report required by the National, Banking and Securities Commission and those responsible for the Entity's government.

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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 consolidated 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.

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- 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
March 31, 2020

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

Consolidated Statements of Financial Position

At December 31, 2019, 2018 and 2017
(Figures in thousands of Mexican pesos)

Assets	Notes	2019	2018 (Restated)	2017
Current assets:				
Cash and cash equivalents	7	$ 2,625,389	$ 1,987,857	$ 1,540,403
Customers, net	8	974,187	582,135	920,264
Value-added tax and other recoverable taxes		338,597	286,360	358,222
Other accounts receivable		473,034	211,086	330,324
Inventories	9	1,779,646	2,120,208	2,009,779
Non-current assets classified as held for sale		52,546	70,340	87,236
Advance payments	10	289,885	412,676	411,563
Total current assets		6,533,284	5,670,662	5,657,791
Long-term assets:				
Guarantee deposits		697,232	863,512	414,909
Investment in shares of associated companies	17	85,471	14,296	-
Store equipment, leasehold improvements and property, net	13	16,692,801	18,960,250	15,772,479
Right of use assets	11	21,192,657	-	-
Intangible assets, net	14 and 19	27,375,209	27,779,352	15,358,006
Deferred income taxes	23	3,835,593	2,867,571	2,348,434
Total long-term assets		69,878,963	50,484,981	33,893,828
Total assets		$ 76,412,247	$ 56,155,643	$ 39,551,619

Liabilities and stockholders' equity	Notes	2019	2018 (Restated)	2017
Current liabilities:				
Current maturities of long-term debt	20	$ 305,668	$ 2,586,553	$ 1,087,466
Current obligation under finance leases	12	8,763,668	6,799	6,799
Suppliers		4,561,509	4,616,944	3,960,806
Factoring of suppliers		889,046	757,976	573,097
Accounts payable and accrued liabilities		111,702	679,767	445,594
Accrued expenses and employee benefits		2,595,586	3,087,617	3,195,217
Option to sell the non-controlling interest	22	2,304,864	2,506,006	3,280,064
Income taxes		571,510	472,175	125,512
Taxes arising from tax consolidation	23	-	-	19,892
Total current liabilities		20,103,553	14,713,837	12,694,447
Long-term liabilities:				
Long-term debt, not including current maturities	20	17,102,448	16,040,204	6,693,454
Obligation under finance leases	12	14,694,365	284,375	294,644
Debt instruments	21	7,973,765	6,983,244	6,980,452
Other liabilities		416,662	758,053	122,711
Deferred income taxes	23	4,365,095	3,772,048	1,966,100
Employee retirement benefits	24	213,797	151,988	196,685
Total long-term liabilities		44,766,132	27,989,912	16,254,046
Total liabilities		64,869,685	42,703,749	28,948,493
Stockholders' equity:	26			
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)
Retained earnings		2,551,874	3,906,447	3,607,287
Reserve for repurchase of shares		705,153	480,169	260,384
Reserve for obligation under put option of non-controlling interest	22 and 26	(2,013,801)	(2,013,801)	(2,673,053)
Other comprehensive income items		(766,696)	97,337	(814,647)
Stockholders' equity attributable to the controlling interest		9,580,999	11,573,152	9,481,560
Non-controlling interest	27	1,961,563	1,878,742	1,121,566
Total stockholders' equity		11,542,562	13,451,894	10,603,126
Total liabilities and stockholders' equity		$ 76,412,247	$ 56,155,643	$ 39,551,619

See accompanying notes to the consolidated financial statements.

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

Consolidated Statements of Income

For the years ended December 31, 2019, 2018 and 2017
(Figures in thousands of Mexican pesos)

	Note	2019	2018	2017
Continuing operations				
Net sales	29	$ 58,154,617	$ 46,156,590	$ 42,529,121
Cost of sales	30	17,164,021	14,187,508	12,923,189
Leases	15	359,997	3,944,744	4,031,877
Depreciation and amortization	11, 13 and 14	8,046,665	3,114,728	2,751,675
Other operating costs and expenses	31	27,893,100	21,648,748	19,635,132
Other expenses (income), net	32	119,943	(32,724)	(527,348)
Interest income		(101,168)	(56,526)	(44,925)
Interest expenses		3,123,023	1,627,938	1,307,406
Changes in the fair value of financial instruments	22	(201,142)	(114,806)	94,968
Exchange loss (gain), net		29,083	(636)	269,133
		1,721,095	1,837,616	2,088,014
Equity in results of associated companies	17	(942)	-	(437)
Income before income taxes		1,720,153	1,837,616	2,087,577
Income tax expense	23	635,420	698,294	835,428
Consolidated net income from continuing operations		$ 1,084,733	$ 1,139,322	$ 1,252,149
Net income for the year attributable to:				
Controlling interest		$ 926,669	$ 953,251	$ 1,089,498
Non-controlling interest		$ 158,064	$ 186,071	$ 162,651
Earnings per share:				
Basic and diluted net earnings per share from continuing and discontinued operations (cents per share)	28	$ 1.11	$ 1.14	$ 1.31
Basic and diluted net earnings per share from continuing operations (cents per share)	28	$ 1.11	$ 1.14	$ 1.31

See accompanying notes to the consolidated financial statements.

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

Consolidated Statements of Other Comprehensive Income

For the years ended December 31, 2019, 2018 and 2017
(Figures in thousands of Mexican pesos)

	2019	2018	2017
Consolidated net income	$ 1,084,733	$ 1,139,322	$ 1,252,149
Items that may be reclassified subsequently to income:			
Valuation of financial instruments, net of income taxes	12,686	149,109	(29,243)
Remeasurement of defined benefit obligation, net of income taxes	(48,782)	26,887	(64,213)
Inflation effect, net of income taxes	313,132	545,766	-
Cumulative translation adjustment, net of income taxes	(1,141,069)	190,222	37,495
	(864,033)	911,984	(55,961)
Total comprehensive income, net of income taxes	$ 220,700	$ 2,051,306	$ 1,196,188
Comprehensive income for the year attributable to:			
Controlling interest	$ 62,636	$ 1,865,235	$ 1,033,537
Non-controlling interest	$ 158,064	$ 186,071	$ 162,651

See accompanying notes to the consolidated financial statements.

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

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2019, 2018 and 2017
(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, 2017	$ 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 26a)	-	-	(2,880)	(338,644)	-	-	-	-	-	-	-	(341,524)	-	(341,524)
Sales of shares (Note 26a)	-	-	2,150	278,797	-	-	-	-	-	-	-	280,947	-	280,947
Dividend paid (Note 26a)	-	-	-	-	-	-	(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 26a)	-	-	(1,469)	(150,735)	-	-	-	-	-	-	-	(152,204)	-	(152,204)
Sales of shares (Note 26a)	-	-	2,880	370,520	-	-	-	-	-	-	-	373,400	-	373,400
Dividend paid (Note 26a)	-	-	-	-	-	-	(654,091)	-	-	-	-	(654,091)	(66,052)	(720,143)
Acquisition of business and sale option for uncontrolled participation (Note 26)	-	-	-	-	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
Effect of change in accounting policy for initial application of IFRS 16	-	-	-	-	-	-	(2,281,242)	-	-	-	-	(2,281,242)	-	(2,281,242)
Sales of shares (Note 26a)	-	-	1,469	224,984	-	-	-	-	-	-	-	226,453	-	226,453
Other movements	-	-	-	-	-	-	-	-	-	-	-	-	(75,243)	(75,243)
Comprehensive income	-	-	-	-	-	-	926,669	313,132	12,686	(1,141,069)	(48,782)	62,636	158,064	220,700
Balances at December 31, 2019	$ 478,749	$ 8,625,720	$ -	$ 705,153	$ (2,013,801)	$ 100,736	$ 2,451,138	$ 858,898	$ (49,971)	$ (1,489,515)	$ (86,108)	$ 9,580,999	$ 1,961,563	$ 11,542,562

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2019, 2018 and 2017
(Figures in thousands of Mexican pesos)

	Note	2019	2018	2017
Cash flows from operating activities:				
Consolidated net income		$ 1,084,733	$ 1,139,322	$ 1,252,149
Adjustment for:				
Income taxes		635,420	698,294	835,428
Equity in results of associated companies		942	-	437
Interest expense		3,123,023	1,627,938	1,307,406
Interest income		(101,168)	(56,526)	(44,925)
Disposal of store equipment, leasehold improvements and property		1,362,947	87,673	101,721
Impairment goodwill	19	32,469	-	3,647
Profit on sale of fixed assets		10,994	(70,374)	79,378
Gain on disposal of investment of associated - Grupo Axo	32	-	-	(608,817)
Changes in the fair value of financial instruments		(201,142)	(114,806)	94,968
Depreciation and amortization	11,13 and 14	8,046,665	3,114,728	2,751,675
		13,994,883	6,426,249	5,773,067
Changes in working capital:				
Customers		(4,299)	217,292	(211,884)
Other accounts receivable		(261,948)	57,151	(85,066)
Inventories		356,210	57,253	(434,416)
Advance payments		455,235	(102,897)	(61,664)
Suppliers		(645,479)	(1,822)	58,834
Factoring of suppliers		131,070	184,879	333,190
Accrued expenses and employee benefits		(1,209,205)	343,403	(75,192)
Income taxes paid		(588,322)	(709,011)	(731,587)
Other liabilities		(482,203)	539,553	46,794
Labor obligations		(7,880)	(6,287)	23,306
Net cash flows provided by operating activities		11,738,062	7,005,763	4,635,382
Cash flows from investing activities:				
Proceeds from equipment and property		82,668	-	-
Interest collected		101,168	56,526	44,925
Store equipment, leasehold improvements and property	13	(3,087,269)	(4,253,226)	(4,695,671)
Intangible assets	14	(425,573)	(356,929)	(511,716)
Disposal of investment of associated - Grupo Axo		-	-	1,607,410
Acquisition in investment in shares of associated companies		(72,117)	(14,296)	-
Acquisitions of business, net of cash acquired	1 and 18	(1,109,933)	(10,618,697)	-
Net cash flows used in investing activities		(4,511,056)	(15,186,622)	(3,555,052)

(Continued)

	Note	2019	2018	2017
Cash flows from financing activities:				
Bank loans		1,633,890	21,515,017	1,160,197
Repayments of loans		(2,797,076)	(9,849,731)	(4,230,321)
Issuance of debt instruments	21	4,000,000	-	3,000,000
Payments for debt instruments		(3,000,000)	-	-
Interest paid		(3,123,023)	(1,627,938)	(1,307,406)
Dividends paid		-	(720,143)	(727,379)
Cash received non-controlling stake		(75,243)	637,157	-
Payments for financial leasing		(4,139,136)	(10,269)	(6,191)
Repurchase of shares		221,400	(152,204)	(341,524)
Sigla debt payment		-	(1,690,050)	-
Sales of shares		5,053	373,400	280,947
Net cash flows (used in) provided by financing activities		(7,274,135)	8,475,239	(2,171,677)
Net (decrease) increase in cash and cash equivalents		(47,129)	294,380	(1,091,347)
Exchange effects on value of cash		684,661	153,074	83,908
Cash and cash equivalents:				
At the beginning of the year		1,987,857	1,540,403	2,547,842
At end of year		$ 2,625,389	$ 1,987,857	$ 1,540,403

(Concluded)

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019, 2018 and 2017
(Figures in thousands of Mexican pesos)

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, 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, and Starbucks brands. In Colombia, Alsea operates the Domino's Pizza, Starbucks, P.F. Chang's brands and from 2018 it operates the Archie's brand. In Brazil, it operates the P.F Chang's brand. In Spain, Alsea operates the brands Foster's Hollywood, Burger King, Domino's Pizza, VIPS, VIPS Smart, Starbucks, GINOS, Fridays and Wagamama and from January and February 2019, Alsea operates the Starbucks brand in France, Netherlands, Belgium and Luxembourg.

Significant events

a. ***Development of the Starbucks brand in Netherlands, Belgium and Luxembourg*** – In February 2019, Alsea executed a development contract with Starbucks Coffee Company to obtain the full license and acquire Starbucks corporate store operations in Netherlands, Belgium and Luxembourg. This transaction resulted in the acquisition by Alsea of 13 corporate units in Netherlands, as well as the rights to provide services to licensed operators in those countries (95 licensed stores in these territories), while operating and generating expansion opportunities for Starbucks stores in those countries. Alsea concluded the purchase process on February 25, 2019.

b. ***Transfer of operations and development rights of the California Pizza Kitchen (CPK) brand*** – In May 2019, as follow-up on the portfolio restructuring strategy, Alsea reached an agreement with CPK to divest the brand under an asset lease scheme and transfer operating and development rights to Opcal, S.A. de C.V. as of May 8, 2019, while also assuming the operation of the 13 corporate units, the rights to 2 sub-franchises at airports, together with the rights to develop and build the CPK brand in Mexico.

c. ***Transfer of operations and development rights of the P.F. Chang's brand in Brazil*** – In June 2019, as follow-up on the portfolio restructuring strategy and to seek efficiencies, Alsea executed an agreement with Banco de Franquias for the incorporation of a joint venture involving P.F. Chang's in Brazil as of June 2019. As part of this agreement, Banco de Franquias will manage the operation of the P.F. Chang's units in that country within the joint venture, while also developing new units.

d. ***Transfer of operations and development rights of the Burger King brand in Colombia and the P.F. Chang's brand in Argentina*** – In August 2019, Alsea executed an agreement to sell the Burger King business in Colombia and the P.F. Chang's business in Argentina. As part of this agreement, Alsea will cease to operate its 16 Burger King units in Colombia and 1 unit in Argentina. This transaction is aligned with the portfolio restructuring strategy and to seek efficiencies to enhance the company's profitability.

e. ***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 €471 million after debt (equivalent to MX $10,618,697) (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 18).

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.

f. ***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.

g. ***Development of the Burger King brand in Mexico*** - In March 2017, 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).

h. ***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.

i. ***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. Alsea also concluded another placement of debt instrument worth $2,000,000, maturing in October 2027 and 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.

j. ***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.

2. Basis of presentation

a. *Explanation for translation into English*

The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of International Financial Reporting Standards (IFRS). Certain accounting practices applied by the Entity that conform to IFRS may not conform to accounting principles generally accepted in the country of use.

b. *Restatement of the consolidated financial statements 2018*

During December 2019, the period allowed by IFRS 3, Business Combinations, Alsea concluded the valuation of the acquisitions of Grupo VIPS mentioned in Note 1 to the consolidated financial statements. The final valuation resulted in changes to the preliminary accounting of such acquisitions; the changes are presented in Note 18. Following is a summary of the effects of the adjustments to the consolidated statements of financial position:

Concept	Figures previously reported	Valuation adjustment		Balance as of December 31, 2018 (As adjusted)
Current assets:				
Customers, net	$ 814,032	$ (231,897)	(1)	$ 582,135
Advance payments	404,969	7,707	(1)	412,676
Long – term assets:				
Guarantee deposits	678,260	185,252	(1)	863,512
Store equipment, leasehold improvements and property, net	19,167,225	(206,975)	(1)	18,960,250
Intangible assets, net	25,822,831	1,956,521	(1)	27,779,352
Deferred income taxes	2,764,884	102,687	(2)	2,867,571
	$ 49,652,201	$ 1,813,295		$ 51,465,496
Current liabilities:				
Current maturities of long – term debt	$ 2,588,266	$ (1,713)	(1)	$ 2,586,553
Suppliers	4,457,901	159,043	(1)	4,616,944
Long – term liabilities:				
Long – term debt, not including current maturities	16,038,416	1,788	(1)	16,040,204
Other liabilities	802,211	(44,158)	(1)	758,053
Deferred income taxes	2,073,713	1,698,335	(2)	3,772,048
	$ 25,960,507	$ 1,813,295		$ 27,773,802

Adjustments explanations:

(1) Related to the net effect of the valuation at fair value of the fixed assets, intangible assets, accrued expenses and employee benefits of Grupo VIPS (see Note 18).

(2) Related to the effect in income taxes due to the increase in the fair value of fixed assets and intangible assets by $1,698,335, and the effect of the assets deferred tax pending register by $102,687 (see Note 18).

3. 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, 2019.

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

Initial effect derived from the application of IFRS 16, Leases

The Entity implemented IFRS 16 (issued by the IASB in January 2016), which establishes new or modified lease accounting requirements. It introduces significant lessee accounting changes by eliminating the distinction between operating and capital leases, and requiring the recognition of a right-of-use asset and a lease liability at the starting date of all leases, albeit with the exception of those considered as short-term or involving low-value assets. In contrast to lessee accounting, the requirements applicable to lessors have remained significantly unchanged. Details of the new requirements are described in Note 3. The initial effect derived from the adoption of IFRS 16 on the Entity's consolidated financial statements is described below.

For the Entity, the initial application date of IFRS 16 was January 1, 2019.

The Entity has applied IFRS 16 by utilizing the modified retrospective approach, which:

- Requires that the Entity recognize the accrued effect of the initial application of IFRS 16 as an adjustment to the opening balance of retained earnings at the initial application date.
- The restatement of comparative financial statements is not permitted.

(a) *Effect of the new lease definition*

The Entity has opted to apply the practical expedient available for the transition to IFRS 16 to avoid reassessing whether a contract is or contains a lease. Consequently, the lease definition contained in IAS 17 and IFRIC 4 will continue to be applied to contracts executed or amended prior to January 1, 2019.

The modification of the lease definition primarily refers to the concept of control. IFRS 16 determines whether a contract contains a lease based on whether the customer is entitled to control the use of an identified asset for a given period of time in exchange for a payment. This contrasts with the "risks and rewards" approach of IAS 17 and IFRIC 4.

The Entity applies the lease definition and related guidelines detailed in IFRS 16 to all the contracts executed or amended on or as of January 1, 2019 (regardless of whether it acts as the lessor or lessee in the contract). For the initial adoption of IFRS 16, the Entity utilized an implementation project, which indicated that the new lease definition established by IFRS 16 does not significantly modify the scope of contracts that fulfill the lease definition for the Entity.

(b) *Effect on lessee accounting*

(i) Prior operating leases

IFRS 16 modifies the manner in which the Entity accounts for leases previously classified as operating leases under IAS 17, which were maintained off the consolidated statement of changes in financial position.

When applying IFRS 16 to all its leases (except for those discussed below), the Entity:

(a) Recognizes right-of-use assets at their book value as though the Standard had been applied as of the starting date, but by discounting the incremental rate of loans contracted by the lessee at the initial application date. It also recognizes lease liabilities in the consolidated statement of changes in financial position, initially measured at the present value of future lease payments.
(b) Recognizes the depreciation of right-of-use assets and the interest accrued by lease liabilities in the consolidated statement of income.
(c) Separates the total amount of cash paid for principal (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Lease incentives (e.g., rent-free periods) are recognized in the initial measurement as part of the right-of-use assets and lease liabilities when, under IAS 17, lease incentives were recognized as a reduction of expenses, generally by utilizing the straight-line method.

Under IFRS 16, right-of-use assets are tested for impairment according to IAS 36.

In the case of short-term leases (for periods of 12 months or less) and those involving low-value assets (such as computers, small items of office furniture and telephones), the Entity has opted to recognize a lease expense according to the straight-line method, as permitted by IFRS 16. This expense is presented under the "leases" heading in the consolidated statement of income.

The Entity has utilized the following practical expedients in conformity with the modified retrospective transition approach for leases previously classified as operating leases in conformity with IAS 17:

- The Entity has chosen not to recognize right-of-use assets and lease liabilities for leases ending within 12 months as of the initial application date.
- The Entity has excluded initial direct costs from the measurement of the right-of-use asset at the initial application date.

(ii) Prior capital leases

The main differences between IFRS 16 and IAS 17 with regard to contracts classified as capital leases is the measurement of the residual value of the guarantees provided by the lessor to the lessee. IFRS 16 requires that the Entity only recognize the amount expected to be paid under a residual value guarantee as part of its lease liabilities, as opposed to the maximum guarantee amount required by IAS 17. This change did not generate any material effects for the Entity's consolidated financial statements.

(c) *The effect on lessor accounting*

IFRS 16 does not contain any substantial changes regarding the manner in which a lessor accounts for a lease. Under IFRS 16, a lessor continues to classify leases as capital leases or operating leases; these two types of leases are accounted for in different ways.

IFRS 16 amended and extended the necessary disclosures, particularly those referring to the way in which the lessor manages the risks resulting from its residual interest in leased assets.

Under IFRS 16, an intermediary lessor must account for the main lease and sublease as two separate contracts. The intermediary lessor must classify the sublease as a capital lease or operating lease according to the right-of-use asset resulting from the main lease (and not in relation to the underlying asset as was the case under IAS 17.

(d) *Initial financial effect derived from the adoption of IFRS 16*

The tables presented below show the adjustment amounts of each item of the consolidated financial statements affected by the application of IFRS 16 during the current and prior periods.

Impact on consolidated income statement		**2019**
Impact on results for the year:		
Increase in depreciation of the asset for use rights (1)	$	4,010,688
Increase in financial expenses (1)		1,081,791
Decrease in other expenses (1)		(4,949,390)
Increase in profit for the year	$	143,089

The Entity as lessee:

(1) The application of IFRS 16 to leases previously classified as operating leases according to IAS 17 led to the recognition of a right-of-use asset of $21,192,657 and lease liabilities of $23,458,033. It also resulted in the reduction of other expenses by the amount of $4,949,390, a depreciation increase of $4,010,688 and an interest expense increase of $1,081,791.

Equipment under capital lease contracts, previously presented under "Leasehold improvements" for the amount of $592,322, is now presented under the "Right-of-use asset". There were no changes to recognized amounts.

The lease liability derived from leases previously classified as capital leases under IAS 18 and previously presented under "Obligations from capital leases", for the amount of $845,549, is now presented under "Lease liabilities". There were no changes to the recognized liability.

The application of IFRS 16 affected the Entity's consolidated statement of cash flows. Under IFRS 16, lessees must present:

- Short-term lease payments, payments made for leases involving low-value assets and variable lease payments are not included in the lease liability measurement, as part of operating activities;
- The cash paid for interest accrued by the lease liability, whether based on operating activities or financing activities, as permitted by IAS 7 (the Entity has decided to include paid interest as part of financing activities); and
- Payments made in cash for principal portion of the lease liability, as part of financing activities.

Under IAS 17, all operating lease rental payments were presented as part of the cash flows of operating activities. Consequently, the net effect generated by operating activities increased by $4,949,390 in 2019, whereby lease payments and the net cash utilized in financing activities increased by the same amount.

The adoption of IFRS 16 did not generate effects for net cash flows.

Effect of the application of other amendments to the standards and interpretations of IFRS

During the current year, the Entity applied a series of amendments to the Standards and Interpretations of IFRS issued by the International Accounting Standards Board (IASB), which are effective for the annual period starting on or as of January 1, 2019. Their adoption did not have any material effects on the disclosures or amounts recorded in these consolidated financial statements.

Amendments to IFRS 9, *Prepayment Features with Negative Compensation*	The Entity adopted the amendments to IFRS 9 for the first time in the current period. The amendments to IFRS 9 clarify that, in order to assess whether the prepayment fulfills the condition of 'solely payments of principal and interest' (SPPI), the party exercising the option may pay or receive a reasonable compensation for the prepayment, regardless of the reason for it being made. In other words, financial assets involving prepayment features with negative compensation do not necessarily fail the SPPI test.
Amendments to IAS 28, *Investments in Associates and Joint Ventures*	The Entity adopted the amendments to IAS 28 for the first time in the current period. The amendment clarifies that IFRS 9, including its impairment requirements, is applicable to other financial instruments involving an associate or joint venture to which the equity method is not applicable. This includes long-term investments, which substantially form part of the net investments in an associate or joint venture. The Entity applies IFRS 9 to these long-term investments, to which it previously applied IAS 28. When applying IFRS 9, the Entity does not consider any of the adjustments made to the book values of long-term investments, as required by IAS 28 (e.g., adjustments to the book values of long-term investments derived from the assignment of the investee's losses or the assessment of impairment according to IAS 28).
Annual improvements to IFRS 2015-2017 Cycle	The Group has adopted the amendments included in the Annual Improvements to IFRS of the 2015-2017 Cycle for the first time in the current period. The annual Improvements include amendments to four standards.
Amendments to IAS 12, *Income Taxes*, IAS 23, *Borrowing Costs*, IFRS 3, *Business Combinations, and* IFRS 11, *Joint Arrangements*	IAS 12, Income taxes The amendments clarify that the income tax incurred by dividends must be recognized in the statement of income, in other comprehensive income or capital based on the manner in which the transactions that generated distributable profits were originally recognized. This is the case regardless of whether different tax rates are applied to distributed and undistributed profits. IAS 23, Borrowing costs The amendments clarify that, if a specific loan remains outstanding after the related asset is ready for its foreseen use or sale, the loan forms part of the borrowed funds when calculating the capitalization rate of general loans. IFRS 3, Business combinations The amendments clarify that, when control is obtained over a business that is a joint venture, the requirements established for a business combination in stages are also applicable, including the reassessment of previously held interest (PHI) in the joint venture at fair value. The previously held interest subject to remeasurement includes the unrecognized assets, liabilities and surplus value of the joint venture.

IFRS 11, Joint Arrangements

The amendments clarify that when a party to a joint venture that did not have joint control obtains joint control, the previously held interest in the joint venture must not be reassessed.

Amendments to IAS 19, *Plan Amendment, Curtailment or Settlement*

The amendments clarify that the cost of past service (or the settlement gain or loss) is calculated by measuring the defined benefit liability or asset, by utilizing current assumptions and comparing the offered benefits and plan assets before and after the plan amendment (curtailment or settlement), while excluding the asset ceiling effect (which arises when the defined benefit plan has a surplus position). IAS 19 now clarifies that the modification of the asset ceiling effect that may result from plan amendment (curtailment or settlement) is determined in a second step and regularly recognized in other comprehensive income.

Paragraphs related to the measurement of the current service cost and net interest accrued by the defined benefit liability (asset). Updated remeasurement assumptions must be used to determine the current service cost and net interest following the plan amendment (curtailment or settlement) and for the remaining reporting period. In the case of net interest, the amendments clarify that, during the period following the plan amendment (curtailment or settlement), net interest is calculated by multiplying the defined benefit liability (asset) revalued according to IAS 19:99 based on the discount rate utilized in the new remeasurement (while considering the effect of benefit contributions and payments on the net defined-benefit liability (asset).

IFRIC 23, *Uncertainty over Income Tax Treatments*

IFRIC 23 establishes how to determine the tax accounting position when uncertainty exists as regards income tax treatments. The interpretation requires:

- The determination of whether uncertain tax positions are assessed individually or collectively; and
- Evaluating whether it is likely that the tax authority will accept an uncertain tax treatment utilized or proposed for use by an entity in its income tax returns:
    - If this is the case, the tax accounting position must be consistently determined in accordance with the tax treatment utilized in income tax returns.
    - If this is not the case, the effect of uncertainty on the determination of the tax accounting position must be reflected by utilizing the most likely amount or expected value method.

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 17	Insurance contracts
IFRS 10 and IAS 28 (amendments)	Sale or contribution of assets between an investor, its associate or joint venture
Amendments to IFRS 3	Definition of a business
Amendments to IAS 1 and IAS 8	Definition of materiality
Conceptual Framework	Conceptual Framework of IFRS

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 17, *Insurance Contracts*

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, while replacing IFRS 4, Insurance contracts.

IFRS 17 describes a general model, which is modified for insurance contracts with direct participation features and that is described as the variable fee approach. The general model is simplified if certain criteria are fulfilled when measuring the remaining coverage liability by means of the premium assignment method.

The general model utilizes current assumptions to estimate the amount, time and uncertainty of future cash flows and explicitly measures the cost of this uncertainty, while also considering market interest rates and the effects of insurees' options and guarantees.

The Standard is effective for annual periods starting on or as of January 1, 2021, although early application is permitted. It is applied retrospectively unless this is unfeasible, in which case the modified retrospective approach or the fair value approach is applied. The draft amendments to IFRS 17 cover the concerns and implementation difficulties identified following the publication of IFRS 17. One of the main proposed changes involves postponing the initial application date of IFRS 17 for one year, for reporting periods starting on or as of January 1, 2022.

According to transition requirements, the initial application date is the start of the annual reporting period in which the Entity applies the Standard for the first time, while the transition date is the start of the period immediately preceding the initial application date.

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

The amendments to IFRS 10 and IAS 28 cover situations in which the sale or contribution of assets takes place between an investor and its associate or joint venture. The amendments specifically establish that the gains or losses resulting from the loss of control over a subsidiary that does not contain a business in a transaction performed with an associate or joint venture, which is accounted for by means of the equity method, are recognized in the gain or loss of the holding company only to the extent of unrelated investors' interest in that associate or joint venture. Likewise, the gains and losses resulting from the remeasurement of investments retained in any former subsidiary (which has become an associate or joint venture that is accounted for by utilizing the equity method) at fair value, are recognized in the gain or loss of the former holding company, only to the extent of unrelated investors' interest in that new associate or joint venture.

The effective date of the amendments has not yet been set by the IASB, although early application is permitted. The Entity's management considers that the application of these amendments may affect the Entity's consolidated financial statements in future periods if these transactions arise.

Amendments to IFRS 3, Definition of a Business

The amendments clarify that, while businesses usually have outputs, they are not required in order for an integrated set of activities and assets to qualify as a business. For consideration as a business, a set of acquired activities and assets must include at least one input and a substantive process that contribute significantly to the capacity to generate outputs.

Additional guidelines are provided to determine whether a substantive process has been acquired.

The amendments introduce an optional test for identifying the concentration of fair value, which permits the simplified assessment of whether a set of acquired activities and assets is not business if all the fair value of the acquired gross assets is substantially concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions when the acquisition date is on or after the first reporting period starting on or as of January 1, 2020, although early adoption is permitted.

Amendments to IAS 1 and IAS 8, Definition of Materiality

The amendments are intended to simplify the definition of materiality contained in IAS 1, thereby making it easier to understand, but are not intended to modify the underlying concept of materiality in IFRS Standards. The concept of obscuring material information with immaterial information has been included in the new definition.

The limit established for materiality that influences the decisions of users has been changed from "could influence" to "could be reasonably expected to influence".

The definition of materiality in IAS 8 has been replaced by a reference to the definition of materiality contained in IAS 1. Furthermore, the IASB amended other standards and the Conceptual Framework containing a definition of materiality through a reference to the term materiality to guarantee consistency.

The amendment will be applied prospectively for reporting periods starting on or as of January 1, 2020, although early application is permitted.

Conceptual Framework of IFRS Standards

Together with the revised Conceptual Framework, which took effect on its date of publication, March 29, 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments for IFRS 2, 3, 6, 14, IAS 1, 8, 34, 37, 38, IFRIC 12, 19, 20, 22 and SIC 32.

However, not all the amendments update pronouncements regarding the Conceptual Framework so as to refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate the version they refer to (to the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010 or the revised Framework of 2018), or to indicate which definitions in the Standard have not been updated with new definitions developed in the revised Conceptual Framework.

The modifications, which are actually updates, are effective for annual periods beginning on or after January 1, 2020, with early adoption permitted.

4. 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 IFRS 16, 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, 2019, 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.

<u>Changes in the Entity's ownership interests in existing subsidiaries</u>

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 obtained 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 16, *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
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
	Mexico	2025
Domino's Pizza	Colombia	2026
	Spain (3)	2019
	Mexico	2037
	Argentina	2027
	Colombia	2033
Starbucks Coffee	Chile	2027
	Spain	2030
	Andorra	2030
	Portugal	2030
	Spain	2030
Fridays	Portugal	2030
	Andorra	2030
	Spain	2036
Wagamama	Portugal	2036
	Andorra	2036

Brands	Country	Year of expiration
Burger King	Mexico, Argentina, Chile and Spain (3)	Depending on opening dates
Chili's Grill & Bar	Mexico Colombia Chile	2023 2026 2026
P.F. Chang's	Mexico (2) Chile, Brazil and Colombia (2)	2029 2021
The Cheesecake Factory	Mexico (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, where Domino's Pizza Spain renewed its contract in 2019. 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, 2019, 2018 and 2017, 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, 2019, the Entity recorded an amount of $32,469 for impairment of 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, 2019 and 2017, there were no impairment effects on goodwill. At December 31, 2018, 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 IFRS 9.

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***

- The Entity as lessor

  The Entity executes lease contracts for certain investment properties as the lessor. The Entity also rents the equipment needed by retailers for the presentation and development of their activities and the equipment manufactured by the Entity.

  The leases in which the Entity acts as lessor are classified as capital leases or operating leases. When contractual terms substantially transfer all the risks and rewards of ownership to the lessee, the contract is classified as a capital lease. All other contracts are classified as operating contracts.

  When the Entity acts as an intermediary lessor, it accounts for the main lease and sublease as two separate contracts. The sublease is classified as a capital lease or operating lease with regard to the right-of-use asset derived from the main lease.

  Rental revenue derived from operating leases is recognized according to the straight-line method during the relevant lease period. The direct initial costs incurred for the negotiation and arrangement of the operating lease are added to the book value of the leased asset and are recognized in conformity with the straight-line method throughout the lease period.

  Outstanding capital lease amounts are recognized as receivable leases for an amount equal to the net investment in the leases. The revenue derived from capital leases is assigned to accounting periods so as to reflect the constant periodic return on the outstanding net investment in the leases.

  When a contract includes lease and non-lease components, the Entity applies IFRS 15 to assign the respective payment to each contractual component.

- <u>The Entity as lessee as of January 1, 2019</u>

The Entity assesses whether a contract initially contains a lease. The Entity recognizes a right-of-use asset and the respective lease liability for all the lease contracts in which impacts it acts as lessee, albeit with the exception of short-term leases (executed for periods of 12 months or less) and those involving low-value assets (like electronic tablets, personal computers and small items of office furniture and telephones). For these leases, the Entity records rental payments as an operating expense according to the straight-line method throughout the lease period, unless another method is more representative of the time pattern in which economic gains result from the consumption of the leased assets.

The lease liability is initially measured at the present value of the rental payments that are not settled at the starting date, discounted according to the implied contractual rate. If this rate cannot be easily determined, the Entity utilizes incremental rates.

The rental payments included in the lease liability measurement are composed by:

- Fixed rental payments (including substantially fixed payments), less any received lease incentive;
- Variable rental payments that depend on an index or rate, which are initially measured by utilizing the index or rate in effect at the starting date;
- The amount expected to be paid by the lessee under residual value guarantees;
- The purchase option exercise price, if it is reasonably certain that the lessee will exercise these options; and
- Penalty payments resulting from the termination of the lease, if the lease period reflects the exercise of a lease termination option.

The lease liability is presented as a separate item in the consolidated statement of changes in financial position.

The lease liability is subsequently measured based on the book value increase to reflect the interest accrued by the lease liability (using the effective interest method) and reducing the book value to reflect the rental payments made.

The Entity revalues the lease liability (and makes the respective adjustments to the related right-of-use asset) as long as:

- The lease period is modified or an event or significant change takes place with regard to the circumstances of the lease, thereby resulting in a change to the assessment of the purchase option exercise, in which case, the lease liability is measured by discounting restated rental payments and utilizing a restated discount rate.
- Rental payments are modified as a result of changes to indexes or rates, or a change in the payment expected under a guaranteed residual value, in which case, the lease liability is revalued by discounting restated rental payments by using the same discount rate (unless the change in rental payments is due to a change of variable interest rate, in which case a restated discount rate is used).
- A lease contract is amended and the lease amendment is not accounted for as a separate lease, in which case the lease liability is revalued according to the amended lease period by discounting restated rental payments using a discount rate restated at the date on which the amendment took effect.

The Entity did not make any of these adjustments in the presented periods.

Right-of-use assets are composed by the initial measurement of the respective lease liability, the rental payments made on or prior to the starting date, less any received lease incentive and any initial direct costs. The subsequent valuation is the cost less accumulated depreciation and impairment losses.

If the Entity assumes an obligation derived from the cost of dismantling and removing a leased asset, to restore the place where it is located or restore the underlying asset to the condition required by lease terms and conditions, a provision measured according to IAS 37 must be recognized. To the extent that costs are related to a right-of-use asset, they are included in the related right-of-use asset unless they are incurred to generate inventories.

Right-of-use assets are depreciated during the shorter of the lease period and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset indicates that the Entity plans to exercise the purchase option, the right-of-use asset is depreciated according to its useful life. Depreciation begins at the lease starting date.

Right-of-use assets are presented as a separate item in the consolidated statement of changes in financial position.

The Entity applies IAS 36 to determine whether a right-of-use asset is impaired and to account for any identified impairment loss, as described in the 'Property, plant and equipment' policy.

Variable leases that do not depend on index or rate are not included in the measurement of the lease liability and right-of-use asset. The related payments are recognized as an expense of the period in which the event or condition leading to the payments arises and are included under the "Other expenses" heading in the consolidated statement of income.

As a practical expedient, IFRS 16 offers the option of not separating non-lease components and instead recording any lease and its associated non-lease components as a single agreement. The Entity has not utilized this practical expedient. For contracts containing lease components and one or more additional lease or non-lease components, the Entity assigns the contractual payment to each lease component according to the relative stand-alone selling price method for all non-lease components.

– The Entity as lessee, until December 31, 2018

Leases are classified as capital leases when the terms of the lease substantially transfer all the risks and rewards inherent to ownership to lessees. All other leases are classified as operating leases.

The assets maintained under capital leases are recognized as the Entity's assets at fair value at the start of the lease or, if this value is lower, at the present value of the minimum lease payments. The respective liability of the lessor is included in the consolidated statement of changes in financial position as a capital lease liability.

Lease payments are distributed between financial expenses and the reduction of lease obligations in order to obtain a constant interest rate for the remaining liability balance. Financial expenses are charged directly to results.

Operating lease rental payments are charged to results by utilizing the straight-line method during the respective lease period.

The lessors of leased real property require guarantee deposits equal to between 1 and 2 monthly rentals. These deposits are classified as non-current.

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 58%, 45% and 44% of consolidated net income and 51%, 52% and 31% of the total consolidated assets at December 31, 2019, 2018 and 2017, 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, 2019, 2018 and 2017, 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.

5. 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 22 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 (21.06% put option). The sale option may be exercised no later than June 20, 2022, in accordance with the addendum to the shareholder's agreement dated June 20, 2019.

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 22.

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. Right-of-use asset

The main aspects considered by the Entity for the implementation of IFRS 16 are: a) assess, at the start of the contract, whether the right to control the use of an identified asset for a given period of time is obtained; b) a change in the nature of lease-related expenses by replacing the operating lease expense determined according to IFRS 16 with the depreciation or amortization of right-of-use assets (in operating costs) and an interest expense for lease liabilities in interest expenses; and c) the determination of lease payments because the Entity has variable rental contracts.

The recoverable amount of right-of-use assets is sensitive to the uncertainty inherent to the preparation of projections and the discount rate utilized in the calculation.

3. 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.

4. 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.

5. 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.

6. 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 25 i.

7. 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.

6. 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 22, 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.

7. 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, 2019, 2018 and 2017 is comprised as follows:

	2019	2018	2017
Cash	$ 1,921,139	$ 1,769,871	$ 1,453,537
Investments with original maturities of under three months	704,250	217,986	86,866
Total cash and cash equivalents	$ 2,625,389	$ 1,987,857	$ 1,540,403

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

8. 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, 2019, 2018 and 2017, the customer balance is comprised as follows:

	2019	2018 (restated)	2017
Franchises	$ 746,115	$ 523,049	$ 394,172
Credit card and daily sale	75,862	97,256	396,077
Other	245,390	59,085	292,208
	1,067,367	679,390	1,082,457
Allowance for doubtful accounts (1)	(93,180)	(97,255)	(162,193)
	$ 974,187	$ 582,135	$ 920,264

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 4e, 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:

	2019	2018	2017
15-60 days	$ 125,380	$ 95,469	$ 13,371
60-90 days	32,360	24,213	13,044
More than 90 days	71,312	123,622	153,900
Total	$ 229,051	$ 243,304	$ 180,315
Average time overdue (days)	54	59	95
Current balance	838,316	436,086	902,142
Total account receivable	$ 1,067,367	$ 679,390	$ 1,082,457

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.

9. Inventories, net

At December 31, 2019, 2018 and 2017, inventories are as follows:

	2019	2018	2017
Food and beverages	$ 1,747,219	$ 2,095,626	$ 1,985,738
Containers and packaging	33,445	25,883	25,188
Other (1)	3,430	6,676	6,558
Obsolescence allowance	(4,448)	(7,977)	(7,705)
Total	$ 1,779,646	$ 2,120,208	$ 2,009,779

(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 $17,164,021, $14,187,508 and $12,923,189 for the years ended December 31, 2019, 2018 and 2017, respectively.

10. Advance payments

Advance payments were made for the acquisition of:

		2019		2018		2017
Insurance and other services	$	39,760	$	124,116	$	136,713
Inventories		224,497		255,531		242,774
Lease of locales		25,628		33,029		32,076
Total	$	289,885	$	412,676	$	411,563

11. Entity as lessee

Entity leases premises for its stores, office, including an industrial warehouse, furniture and equipment. The average lease term is between 6 and 7 years for 2019.

Right of use assets		Amount
Cost:		
Balance at January 1, 2019	$	18,493,689
Acquisitions		6,709,656
Balance as of December 31, 2019	$	25,203,345
Depreciation:		
Balance at January 1, 2019	$	-
Charge for depreciation for the year		(4,010,688)
Balance as of December 31, 2019	$	(4,010,688)
Net cost:		
Balance as of December 31, 2019	$	21,192,657

Amounts recognized in the consolidated statement income		2019
Depreciation expense of the asset for use rights	$	4,010,688
Finance expense caused by lease liabilities		1,081,791
Expense related to short-term leases		216,883
Expense related to leasing of low-value assets		42,045
Expense related to variable lease payments, not included in the measurement of lease liabilities		101,069
Income from the sublease of assets for use rights		-

Some of the leases of properties in which the Entity participates as lessee contain variable lease payment terms that are related to sales generated in the leased stores. Variable payment terms are used to link lease payments to store cash flows and reduce fixed cost. The composition of the lease payments by the stores is detailed in the following table.

	2019
Fixed payments	$ 4,949,390
Variable payments	101,069
Total lease payments	$ 5,050,459

In general, variable payments constitute 2% of the Entity's total lease payments. The Entity expects this proportion to remain constant in future years. Variable payments depend on sales and, consequently, on economic development during the following years. Taking into consideration the development of expected sales over the next 10 years, it is expected that the expense for variable leases will continue to present a similar proportion of store sales in the following years.

The total cash outflows for leases amount to $5,050,459 for 2019.

12. Obligation under finance leases

	2019
Maturity analysis:	
Year 1	$ 4,574,273
Year 2	3,950,863
Year 3	3,308,716
Year 4	2,846,815
Year 5	2,316,689
Later	9,657,198
	26,654,554
Less: Unearned interest	(3,196,521)
	$ 23,458,033
Analyzed:	
Long term	$ 14,694,365
Short term	8,763,668
	$ 23,458,033

The Entity does not face a significant liquidity risk regarding its lease liabilities. Lease liabilities are monitored through the Entity's Treasury.

13. 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, 2017	$ 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

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, 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
Adjustment for restated (Note 2)	-	(206,975)	-	-	-	-	-	-	-	(206,975)
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 (restated)	947,088	10,209,510	16,333,671	282,859	269,900	1,270,902	987,519	427,312	2,436,776	33,165,537
Acquisitions	-	1,020,646	1,236,703	-	51,915	251,680	68,587	273,727	184,011	3,087,269
Business acquisitions	-	69,215	388,528	-	-	-	-	5,842	13,774	477,359
Reclassified of equipment under financial leasing contracts	-	-	(309,463)	(282,859)	-	-	-	-	-	(592,322)
Disposals	(29,085)	(419,724)	(611,966)	-	(28,726)	(87,089)	(65,798)	(41,787)	(402,224)	(1,686,399)
Restatement	-	335,129	504,801	-	1,649	21,441	-	7,290	70,327	940,637
Adjustment for currency conversion	(10,721)	(738,536)	(1,471,548)	-	(14,395)	(84,549)	-	(108,373)	(130,896)	(2,559,018)
Balance as of December 31, 2019	$ 907,282	$ 10,476,240	$ 16,070,726	$ -	$ 280,343	$ 1,372,385	$ 990,308	$ 564,011	$ 2,171,768	$ 32,833,063
Depreciation										
Balance at January 1, 2017	$ 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
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 (restated)	113,919	5,133,697	7,239,212	45,830	133,639	874,273	557,725	106,992	-	14,205,287
Charge for depreciation for the year	6,240	1,150,947	2,204,789	-	49,800	202,407	41,546	134,828	-	3,790,557
Reclassified of equipment under financial leasing contracts	-	-	-	(45,830)	-	-	-	-	-	(45,830)
Disposals	(2,096)	(377,119)	(592,571)	-	(25,769)	(83,145)	(65,781)	(67,698)	-	(1,214,179)
Restatement	-	131,018	236,050	-	1,450	10,420	-	2,528	-	381,466
Adjustment for currency conversion	(1,396)	(306,697)	(554,998)	-	(7,002)	(56,767)	-	(50,179)	-	(977,039)
Balance as of December 31, 2019	$ 116,667	$ 5,731,846	$ 8,532,482	$ -	$ 152,118	$ 947,188	$ 533,490	$ 126,471	$ -	$ 16,140,262

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, 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 (restated)	$ 833,169	$ 5,075,813	$ 9,094,459	$ 237,029	$ 136,261	$ 396,629	$ 429,794	$ 320,320	$ 2,436,776	$ 18,960,250
Balance as of December 31, 2019	$ 790,615	$ 4,744,394	$ 7,538,244	$ -	$ 128,225	$ 425,197	$ 456,818	$ 437,540	$ 2,171,768	$ 16,692,801

14. 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, 2017	$ 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 restated (Note 2)	6,842,156	-	-	-	(4,885,635)	1,956,521
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 (restated)	15,515,745	525,592	1,443,581	1,534,295	12,553,038	31,572,251
Acquisitions	85,407	15,396	139,001	185,769	-	425,573
Business acquisition	608,076	-	308,701	-	19,823	936,600
Adjustment for currency conversion	(1,154,231)	(8,391)	43,580	(72,271)	-	(1,191,313)
Disposals	(152,513)	(10,068)	(446,916)	(2,302)	-	(611,799)
Restatement	99,570	40	-	-	-	99,610
Balance as of December 31, 2019	$ 15,002,054	$ 522,569	$ 1,487,947	$ 1,645,491	$ 12,572,861	$ 31,230,922

Amortization	Brand rights	Commissions for store opening	Franchise and use of locale rights	Licenses and developments	Goodwill	Total
Balance at January 1, 2017	$ 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 (restated)	1,483,851	489,078	597,291	1,205,726	16,953	3,792,899
Amortization	182,621	286	154,466	175,184	-	512,557
Business acquisition	-	-	-	-	-	-
Adjustment for currency conversion	(143,522)	(4,656)	(23,083)	(10,340)	-	(181,601)
Disposals	(178,218)	(46,736)	(9,676)	(52,186)	-	(286,816)
Restatement	24,180	211	(5,717)	-	-	18,674
Balance as of December 31, 2019	$ 1,368,912	$ 438,183	$ 713,281	$ 1,318,384	$ 16,953	$ 3,855,713
Net cost						
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 (restated)	$ 14,031,894	$ 36,514	$ 846,290	$ 328,569	$ 12,536,085	$ 27,779,352
Balance as of December 31, 2019	$ 13,633,142	$ 84,386	$ 774,666	$ 327,107	$ 12,555,908	$ 27,375,209

15. Operating lease agreements

a. ***Operating leases, until December 31, 2018***

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
Minimum lease payments	$ 3,944,744	$ 4,031,877

b. ***Commitments non-cancellable operating leases***

	2018	2017
Less than a year	$ 4,598,153	$ 2,845,064
Between one and five years	24,731,869	11,524,706

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. As of 2019, the lease liability on leases previously classified as finance leases under IAS 18 and previously presented under "Obligations under finance leases" is now presented under "Lease liability". There were no changes in the recognized liability.

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

	Minimum payments of leases	
	2018	2017
Less than a year	$ 32,398	$ 32,398
Between one and five years	113,295	115,009
More than five years	456,633	490,185
	602,326	637,592
Less future finance charges	(311,152)	(336,149)
Minimum lease payments	$ 291,174	$ 301,443

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

16. Investment in subsidiaries

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

Name of subsidiary	Principal activity	2019	2018	2017
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	100.00%	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%
Servicios Múltiples Empresariales ACD, S.A. de C.V. (before 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. (2)	Operator of the P.F. Chang's brand in Argentina	-	100.00%	100.00%
Operadora Alsea en Colombia, S.A. (2)	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. (2)	Operator of the California Pizza Kitchen brand in Mexico	100.00%	100.00%	100.00%
Especialista en Restaurantes de Comida Estilo Asiática, S.A. de C.V.	Operator of the P.F. Chang's brand in Mexico	100.00%	100.00%	100.00%
Distribuidora e Importadora Alsea, S.A. de C.V.	Distributor of foods and production materials for the Alsea and related brands	100.00%	100.00%	100.00%
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 Italianni's brand	100.00%	100.00%	100.00%
Starbucks Coffee Chile, S.A.	Operator of the Starbucks brand in Chile	100.00%	100.00%	100.00%
Estrella Andina, S.A.S.	Operator of the Starbucks brand in Colombia	70.00%	70.00%	70.00%
Operadora Vips, S. de R.L. de C.V.	Operator of Vips brand	100.00%	100.00%	100.00%

Name of subsidiary	Principal activity	2019	2018	2017
OPQR, S.A de C.V.	Operator Brand Cheesecake Factory in Mexico	100.00%	100.00%	100.00%
Food Service Project, S.L. (Grupo Zena)	Operator of Spain	66.24%	66.24%	71.76%
Gastrococina Sur, S.P.A.	Operator of Chili's Grill & Bar in Chile	100.00%	100.00%	100.00%
Gastronomía Italiana en Colombia, S.A.S. (1)	Operator of Archie´s brand in Colombia	97.60%	97.60%	97.60%
Sigla, S.A. (Grupo VIPS) (see Note 1a)	Operator of the VIPS, VIPS Smart, Starbucks, GINOS, Fridays and Wagamama brands in Spain	100.00%	100.00%	-
Café Sirena Uruguay, S.A.	Operator of Starbucks brand in Uruguay	100.00%	100.00%	100.00%
Operadora GB Sur, S.A. de C.V.	Operator of the Burger King and Domino's Pizza brand in Mexico	70.90%	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.

(2) Transfer of operations and brand development rights (see Note 1).

17. Investment in shares of associated companies

At December 31, 2019, 2018 and 2017, the investment in shares of associated companies is comprised of the Entity's direct interest in the capital stock of the companies listed below:

	(%) 2019	2018	2017	Main operations	Interest in associated company 2019	2018	2017
Operadora de Restaurantes AYB Polanco, S.A. de C.V. (3)	30.00%	30.00%	-	Operator of restaurants of the EF Entre Fuegos brand and EF Entre Fuegos Elite Steak House that operates in Mexico	$ 14,932	$ 14,296	$ -
Other investments					70,539	-	-
Total					$ 85,471	$ 14,296	$ -

	(%) 2019	2018	2017	Main operations	Equity in results 2019	2018	2017
Operadora de Restaurantes AYB Polanco, S.A. de C.V (3)	30.00%	30.00%	-	Operator of restaurants of the EF Entre Fuegos brand and EF Entre Fuegos Elite Steak House that operates in Mexico	$ 636	$ -	$ -
Grupo Axo, S.A.P.I. de C.V. (2)	-	-	25.00%	Sales of prestigious brands of clothes and accessories in Mexico	-	-	(3,487)
Blue Stripes Chile SPA (1)	-	-	33.33%	Sales of prestigious brands of clothes and accessories in Chile	-	-	1,892
Stripes Chile SPA	-	-	33.33%	Sales of prestigious brands of clothes and accessories in Chile	-	-	1,158
Other investments					(1,578)	-	-
Total					$ (942)	$ -	$ (437)

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

(2) As mentioned in Note 1h, 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.

(3) 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. de C.V.

Operadora de Restaurantes AYB Polanco, S.A. de C.V.

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

	2019	2018	2017
Current assets	$ 14,263	$ -	$ -
Non-current assets	$ 40,924	$ -	$ -
Current liabilities	$ 5,413	$ -	$ -
Income	$ 46,224	$ -	$ -
Net profit for the period	$ 2,120	$ -	$ -

Stripes Chile SPA

The results of the associated entity are as follows:

	2019	2018	1/01/2017 to 19/10/2017
Income	$ -	$ -	$ 87,228
Net profit for the period	$ -	$ -	$ 3,474

Blue Stripes Chile SPA

The results of the associated entity are as follows:

	2019	2018	1/01/2017 to 19/10/2017
Income	$ -	$ -	$ 98,874
Net profit for the period	$ -	$ -	$ 5,677

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

The results of the associated entity are as follows:

	2019	2018	1/01/2017 to 19/10/2017
Revenues	$ -	$ -	$ 5,769,233
Net loss for the period	$ -	$ -	$ (13,948)

18. Business combination

Subsidiaries acquired

Entity name	Main activity	Acquisition date	Proportion of shares acquired (%)	Consideration transferred
Clover	Operator of the Starbucks brand in France, Holland, Belgium and Luxembourg	February 25, 2019	100%	$ 1,109,933
Sigla, S.A.	Operator of the VIPS, VIPS Smart, Starbucks, GINOS, Fridays and Wagamama brands in Spain	December 27, 2018	100%	$ 10,618,697

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 Clover

During the months of January and February 2019, the acquisition process was concluded with Starbucks Coffee Company to obtain the full license and acquire the store operations of the Starbucks companies in France, the Netherlands, Belgium and Luxembourg and which together with its subsidiaries they are called Clover.

The consideration paid for the acquisition was €50 million after debt payable in cash (equivalent to MX $1,109,933).

The acquisition does not contemplate any contingent consideration.

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, the preliminary amounts below are subject to change:

Concept	February 2019
Current assets	
Cash and cash equivalents	$ 188,675
Customers, net	199,078
Inventories, net	15,648
Advance payments	110,237

Concept	February 2019
Long-term assets:	
Store equipment, leasehold improvements and property, net	477,359
Intangible assets, net	936,600
Guarantee deposits	55,927
Deferred income taxes	21,287
Current liabilities:	
Suppliers and other accounts payable	(590,044)
Long-term liabilities:	
Deferred income taxes	(183,845)
Other liabilities	(140,812)
Fair value of net assets	1,090,110
Considerations paid in cash	1,109,933
Goodwill	$ 19,823

The initial recording for the acquisition of Clover 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 Clover, derives from the paid consideration that included amounts related to the benefits of operating more than 270 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 $921,258, corresponding to the consideration paid in cash of $1,109,933, less cash and cash and cash equivalent balances acquired for $188,675.

If the acquisition had occurred at beginning of year, Alsea's consolidated net profit for the period would have been $933,045 and revenues would have been $58,371,001. Acquisition expenses related to this transaction amounted to $42,006, which is shown within other expenses (income).

Acquisition of Sigla

On December 27, 2019, 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.

As of December 31, 2018, a consideration paid for €500 million euros was considered, however, this figure was made up of a contribution made after the takeover by Grupo Zena and should not have been considered as part of the price paid. The final consideration paid for the acquisition was €471 million euros after debt payable in cash (equivalent to $ 10,618,697). 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.

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 22).

In December 2019, the acquisition measurement period concluded. An analysis of the assignment of the acquisition cost based on the fair values of the acquired net assets at the acquisition date is presented below. Certain interim accounting changes were made to the acquisition at that date, as detailed below:

Concept	Preliminary book entry	Adjustment for valuation	Fair value
Current assets:			
Cash and cash equivalents	$ 413,716	$ -	$ 413,716
Accounts receivable and other accounts receivable	431,694	(231,897)	199,797
Inventories	369,541	-	369,541
Advance payments	-	7,707	7,707
Long-term assets:			
Store equipment, leasehold improvements and property, net	2,707,972	(206,975)	2,500,997
Intangible assets, net	125,085	6,842,156	6,967,241
Guarantee deposits	-	185,252	185,252
Deferred income taxes	457,679	102,687	560,366
Current liabilities:			
Accounts payable to suppliers and other accounts payable	(1,802,471)	(159,043)	(1,961,514)
Current maturities of long-term debt	(1,713)	1,713	-
Long-term liabilities:			
Other liabilities	(150,654)	44,158	(106,496)
Long – term debt, not incluiding current maturities	(2,481,009)	(1,788)	(2,482,797)
Deferred income taxes	(12,198)	(1,698,335)	(1,710,533)
Fair value of net assets	57,642	4,885,635	4,943,277
Considerations paid in cash	10,618,697	-	10,618,697
Goodwill	$ 10,561,055	$ (4,885,635)	$ 5,675,420

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 $10,204,981, corresponding to the consideration paid in cash of $10,618,697, 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.

19. Goodwill

Assignment of goodwill to cash generating units

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

	2019	2018	2017
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
Sigla, S.A. (see Note 18)	5,675,420	5,675,420	-
Clover	19,823	-	-
Cañas y Tapas	6,838	6,838	6,838
	$ 12,555,908	$ 12,536,085	$ 6,860,665

As of December 31, 2019, 2018 and 2017, 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.

20. Long-term debt

Long-term debt at December 31, 2019, 2018 and 2017 is comprised of unsecured loans, as shown below:

Bank	Type of credit	Currency	Rate	Maturity	2019	2018	2017
Sindicado	Simple credit	Mexican pesos	Variable rate TIIE +1.25%	2023	$ 4,533,800	$ 3,681,937	$ -
Sindicado	Simple credit	Euros	Variable rate Euribor +1.25%	2023	8,969,600	8,872,628	-
Sindicado	Simple credit	Euros	1.89% (Fixed rate)	2020	-	-	2,338,640
Bank of America	Simple credit	Mexican pesos	6.11% (Fixed rate)	2019	-	1,000,000	1,000,000
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	1,668,411	1,661,002	600,000
Banco Santander, S.A.	Simple credit	Mexican pesos	Variable rate TIIE +1.00%	2021	113,628	152,893	260,000
Banco Nacional de México, S.A.	Simple credit	Mexican pesos	Variable rate TIIE +0.75%	2020	-	-	432,000
Scotiabank Inverlat, S.A.	Simple credit	Mexican pesos	Variable rate TIIE +0.90%	2020	285,993	-	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	400,000
Banco Santander, S.A.	Simple credit	Mexican pesos	Variable rate TIIE +1.00%	2022	287,500	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	-
Sindicado	Simple credit	Argentine pesos	Euribor + 1.25%	2023	-	19,466	-
Clover ING	Simple credit	Euros	Euribor + 1.70%	2022	411,072	819,999	-
Clover Rabobank	Simple credit	Euros	Euribor + 1.70%	2022	411,072	-	-
Banca March	Simple credit	Euros	Euribor + 1.70%	2020	205,536	-	-
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	-
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	121,504	151,880	-
Santander Chile, S.A.	Simple credit	Chilean pesos	3.6% (Fixed rate)	2018	-	-	85,918
					17,408,116	18,626,757	7,780,920
			Less - current portion		(305,668)	(2,586,553)	(1,087,466)
			Long-term debt maturities		$ 17,102,448	$ 16,040,204	$ 6,693,454

Annual long-term debt maturities at December 31, 2019 are as follows:

Year		Amount
2021	$	484,146
2022		2,019,536
2023		3,854,395
2024		9,724,785
2025		370,758
2026		648,828
	$	17,102,448

Bank loans include certain affirmative and negative covenants, such as maintaining certain financial ratios. At December 31, 2019, 2018 and 2017, all such obligations have been duly met.

21. Debt instruments

In May 2019, the Entity placed of debt instruments worth $1,350,000 over 5 years as from the issuance date, maturing in May 2024. Those instruments will accrue interest at the 28-day TIIE rate plus 0.95 percentage points; and other debt instrument worth $2,650,000 over 7 years as from the issue date, maturing in May 2026. Those instruments will accrue interest at a fixed rate of 10.01%.

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 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, 2019, 2018 and 2017 amounts to $7,973,765, $6,983,244 and $6,980,452 respectively.

Year		Amount
2022	$	1,000,000
2024		1,350,000
2025		973,765
2026		2,650,000
2027		2,000,000
	$	7,973,765

22. 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. Britania Investments, S.A.R.I. 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 as of December 31, 2018.
4. Britania Investments, S.A.R.I., on June 20, 2019, signs a new agreement in which a fixed amount of €111 million euros is agreed, which will be liquidated when exercising the put option according to the clauses of the new agreement to take effect no later than June 2022. The present value of the estimated debt as of December 31, 2019 is $ 2,304,864.
5. 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, 2019 and 2018 is $17,436 and $11,977, respectively.

23. Income taxes

The Entity is subject to ISR. Under the ISR Law the rate for 2019, 2018 and 2017 was 30% and will continue at 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 2017 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 was paid in 2018.

In Chile, in September 2014, the government promulgates in its tax reform increased the rate gradually according to the following 25.5% in 2017, 27% to 2018 and 2019 and to 2020 will be of 27%, based taxation system chose for the years 2018 and 2019. 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 for 2018 and 2017; from 2020 the rate will be 25%. 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 2019, 2018 and 2017, 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.

The tax rates established for the financial year 2019, in the rest of the countries in which Alsea is present in Europe are as follows:

- Portugal: 22.5%.
- France: First 500,000 euros at 28.00%, the rest at 33.33%.
- Netherlands: First 200,000 euros at 16.5%, the rest at 25.00%.
- Belgium: First 100,000 euros at 20.40%, the rest at 29.58%.
- Luxembourg: 16% plus solidarity and municipal surcharges (in Luxembourg City, a total of 24.94%).

a. ***Income taxes recognized in income***

	2019	2018	2017
Current	$ 988,600	$ 836,509	$ 985,351
Deferred	(353,180)	(138,215)	(149,923)
	$ 635,420	$ 698,294	$ 835,428

The tax expense attributable to income before ISR differs from that arrived at by applying the 30% statutory rate in 2019, 2018 and 2017 due to the following items:

	2019	2018	2017
Statutory income tax rate	30%	30%	30%
Non-deductible expenses	6%	6%	8%
Effects of inflation and others	9%	11%	9%
Fixed asset update	(3%)	(7%)	(6%)
Others	(5%)	(2%)	(1%)
Effective consolidated income tax rate	37%	38%	40%

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:

	2019	2018 (restated)	2017
Deferred (assets) liabilities:			
Estimation for doubtful accounts and inventory obsolescence	$ (29,048)	$ (28,802)	$ (2,347)
Liability provisions	(657,526)	(743,666)	(623,225)
Advances from customers	(121,311)	(38,180)	(164,635)
Unamortized tax losses	(568,505)	(586,659)	(186,952)
Store equipment, leasehold improvements and property	1,748,904	2,228,491	471,310
Advance payments	156,988	73,293	123,515
	$ 529,502	$ 904,477	$ (382,334)

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:

	2019	2018 (restated)	2017
Deferred tax assets	$ 3,835,593	$ 2,867,571	$ 2,348,434
Deferred tax liabilities	4,365,095	3,772,048	1,966,100
	$ 529,502	$ 904,477	$ (382,334)

d. ***Deferred income tax balances***

2019	Beginning balance	Recognized in profit or loss	Recognized in stockholders' equity	Acquisitions	Ending balance
Temporary differences:					
Estimation for doubtful accounts and inventory obsolescence	$ (28,802)	$ (246)	$ -	$ -	$ (29,048)
Liability provisions	(743,666)	177,382	5,437	(96,679)	(657,526)
Advances from customers	(38,180)	(83,131)	-	-	(121,311)
Store equipment, leasehold improvements and property	2,228,491	(549,034)	156,613	(87,166)	1,748,904
Prepaid expenses	73,293	83,695	-	-	156,988
	1,491,136	(371,334)	162,050	(183,845)	1,098,007
Tax loss carryforwards and unused tax credits:					
Tax loss carryforwards	(586,659)	18,154	-	-	(568,505)
	$ 904,477	$ (353,180)	$ 162,050	$ (183,845)	$ 529,502

2018 (restated)	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	1,530,308	2,228,491
Prepaid expenses	123,515	(50,222)	-	-	73,293
	(195,382)	(45,257)	274,859	1,456,916	1,491,136
Tax loss carryforwards and unused tax credits					
Tax loss carryforwards	(186,952)	(92,958)	-	(306,749)	(586,659)
	$ (382,334)	$ (138,215)	$ 274,859	$ 1,150,167	$ 904,477

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)

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, 2019, are:

Year of maturity	Amortizable losses	Country
2023	$ 21,955	Mexico
2024	81,543	Mexico
2025	253,962	Mexico
2026	134,471	Mexico
2027	126,668	Mexico
2028	251,217	Mexico
2029	966,266	Mexico
Losses of entities abroad without expiration	46,972	Spain
Losses of entities abroad without expiration	577,629	Chile
2022	1,058	Argentina
2023	53,417	Argentina
2023	38,905	Argentina
	$ 2,554,063	

24. 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 $69,689 in 2019.

The expense for employee benefits as of December 31, 2019, 2018 and 2017 was $16,044,061, $11,557,626 and $10,650,386; respectively, not including the cost defined benefit described below.

The net cost for the period related to obligations derived from seniority premiums amounted to $1,669, ($522) and $9,251 in 2019, 2018 and 2017, respectively. Other disclosures are deemed immaterial by the Entity.

25. 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 2018.

The Entity's capital structure consists of the net debt (the loans described in Note 20, 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 26).

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, 2019, 2018 and 2017, 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, 2019, 2018 and 2017, 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***

		2019		2018 (restated)		2017
Financial assets						
Cash and cash equivalents	$	2,625,389	$	1,987,857	$	1,540,403
Loans and accounts receivable at amortized cost		1,447,221		793,221		1,250,588

	2019	2018 (restated)	2017
Financial liabilities at amortized cost			
Suppliers by merchandise	2,327,048	2,290,788	2,011,233
Suppliers providers and others	2,234,461	2,326,156	1,949,573
Factoring of suppliers	889,046	757,976	573,097
Accounts payable and accrued liabilities	111,702	679,767	445,594
Current maturities of long-term debt	305,668	2,586,553	1,087,466
Current maturities of financial lease liabilities	8,763,668	6,799	6,799
Long-term debt, not including current maturities	17,102,448	16,040,204	6,693,454
Non-current financial lease liabilities	14,694,365	284,375	294,644
Debt instruments	7,973,765	6,983,244	6,980,452

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 35 shows foreign currency positions at December 31, 2019, 2018 and 2017. 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, 2019, 2018 and 2017.

Type of derivative, security or contract	Position	Objective of the hedging	Underlying / reference variable 31/12/2019 current	Underlying / reference variable 31/12/2018 previous	Underlying / reference variable 31/12/2017 previous	Notional amount/ face value (thousands of USD) 31/12/2019 current	Notional amount/ face value (thousands of USD) 31/12/2018 previous	Notional amount/ face value (thousands of USD) 31/12/2017 previous	Fair value (thousands of USD) 31/12/2019 current	Fair value (thousands of USD) 31/12/2018 previous	Fair value (thousands of USD) 31/12/2017 previous	Amounts of maturities (thousands of USD)
Forwards	Long	Economic	19.8727 USDMXN	19.6512 USDMXN	19.7354 USDMXN	28,350	62,650	50,050	$ 2,450	$ 147	$ (46)	$ 28,350
Options	Long	Economic	19.8727 USDMXN	19.6512 USDMXN	19.7354 USDMXN	31,250	56,400	75,950	$ 267	$ 18,880	$ (1,016)	$ 31,250

1. Foreign currency sensitivity analysis

At December 31, 2019, 2018 and 2017, the Entity has contracted hedging in order to purchase US dollars for the next 12 months, a total of $59, $119 and $126 million dollars, respectively, at the average exchange rate of $19.45, $19.16 and $18.82 pesos per US dollar, respectively the valuation is based on an average exchange rate of $19.00, $19.65 and $18.50, pesos per US dollar, respectively, over the next 12 months as of December 31, 2019, 2018 and 2017. The initial price of currency derivatives is $(3.9), $(19.0) and $48.5 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, 2019 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, 2019 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, 2019, 2018 and 2017, a total of 603, 465 and 1,066 derivative financial instrument operations (forwards and options) were carried out, respectively, for a total of 329.7, 275.6, and 402.6 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, 2019, 2018 and 2017, Alsea has contracted DFI's to purchase US dollars in the next twelve months for a total of approximately \$59, \$119 and \$126 million USD, at the average exchange rate of \$19.45, \$19.16 and \$18.82 pesos to the dollar, respectively.

At December 31, 2019, 2018 and 2017, 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, 2019, the Entity has a total debt of $25,382 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 49% is fixed at a weighted rate of 8.84%, and 51% 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, 2019, 2018 and 2017.

Type of derivative, security or contract	Position	Objective of the hedging	Underlying / reference variable 31/12/2019 current	31/12/2018 previous	31/12/2017 previous	Notional amount/ face value (USD) 31/12/2019 current	31/12/2018 previous	31/12/2017 previous	Fair value (USD) 31/12/2019 current	31/12/2018 previous	31/12/2017 previous	Amounts of expiration (thousands of USD)
IRS Plain Vanilla	Long	Coverage	7.5002% - TIIE 28 d	8.5956% - TIIE 28 d	7.62% - TIIE 28 d	207,495	187,853	199,046	$ 11,565	$ 20,413	$ 20,650	$ 207,495
IRS Plain Vanilla	Long	Economic	7.5002% - TIIE 28 d	8.5956% - TIIE 28 d	7.62% - TIIE 28 d	144,161	107,326	113,337	$ 723	$ (7,251)	$ (5,160)	$ 144,161
Capped IRS	Long	Economic	7.5002% - TIIE 28 d	8.5956% - TIIE 28 d	7.62% - TIIE 28 d	32,890	33,263	35,469	$ 89	$ (53)	$ 402	$ 32,890

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, 2019 close, the increase in financial costs is of approximately $258.9 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 49% coverage of the debt.

- A 150 bps increase in the 28-day TIIE rate represents an increase in the financial cost of approximately $194.2 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 $129.4 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 7.5% 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 close of December 31, 2019, the Entity has had no margin calls, at the December 31, 2018 and 2017 closing, the Entity has incurred in 13 margin calls just in 2018, and holds 3 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, 2019, 2018 and 2017, 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, 2019, 2018 and 2017, that risk amounts to $4,072,609, $3,012,975 and $2,790,991, 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, 2019	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	8.76%	$ 1,093,453	$ 1,558,759	$ 2,394,325	$ 13,906,439	$ 1,139,110	$ 20,092,086
Debt instruments	9.03%	735,841	735,841	1,715,588	648,077	8,554,678	12,390,025
Financial leasing	4.00%	4,574,273	3,950,863	3,308,716	2,846,815	11,077,714	25,758,381
Derivatives		3,904	-	-	-	-	3,904
Suppliers		4,561,509	-	-	-	-	4,561,509
Factoring of suppliers (1)		889,046	-	-	-	-	889,046
Total		$ 11,858,026	$ 6,245,463	$ 7,418,629	$ 17,401,331	$ 20,771,502	$ 63,694,951

As of December 31, 2018 (restated)	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	$ 7,277,773	$ 20,546,767
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		4,616,944	-	-	-	-	4,616,944
Factoring of suppliers (1)		757,976	-	-	-	-	757,976
Total		$ 9,151,504	$ 4,520,457	$ 3,112,643	$ 7,716,486	$ 11,540,084	$ 36,041,174

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

(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**
	12/31/2019	**12/31/2018**	**12/31/2017**	
1) Forwards and currency options agreements	$ 46,244	$ 147	$ (46)	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	$ 5,041	$ 18,880	$ 15,703	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, 2019, 2018 and 2017, 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:

	12/31/2019		12/31/2018 (restated)		12/31/2017	
Financial liabilities	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities maintained at amortized cost:						
Suppliers	$ 4,561,509	$ 4,561,509	$ 4,616,944	$ 4,616,944	$ 3,960,806	$ 3,960,806
Factoring of suppliers	889,046	889,046	757,976	757,976	573,097	573,097
Accounts payable and accrued liabilities	111,702	111,702	679,767	679,767	445,594	445,594
Bank loans	305,668	322,187	2,586,553	2,702,880	1,087,466	1,095,114
Obligation under finance leases	8,763,668	8,763,668	6,799	6,799	6,799	6,799
Long-term bank loans	17,102,448	17,102,448	16,040,204	16,040,204	6,693,454	6,693,454
Non-current financial lease liabilities	14,694,365	14,694,365	284,375	284,375	294,644	294,644
Debt instruments	7,973,765	8,243,744	6,983,244	6,809,099	6,980,452	6,843,439
Total	$ 54,402,171	$ 54,688,669	$ 31,955,862	$ 31,898,044	$ 20,042,312	$ 19,912,947

Financial liabilities 2019	Level 2
Financial liabilities maintained at amortized cost:	
Bank loans	$ 305,668
Current maturities of financial lease liabilities	8,763,668
Long-term bank loans	17,102,448
Non-current financial lease liabilities	14,694,365
Debt instruments	7,973,765
Total	$ 48,839,914

Financial liabilities 2018

		Level 2
Financial liabilities maintained at amortized cost:		
Bank loans	$	2,586,553
Current maturities of financial lease liabilities		6,799
Long-term bank loans		16,040,204
Non-current financial lease liabilities		284,375
Debt instruments		6,983,244
Total	$	25,901,175

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

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.

26. 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, 2017	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
Placement of actions	2,938,543		1,469		-
Figures as of December 31, 2019	838,578,725	$	478,749	$	8,625,720

As discussed in Note 22, 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, as of December 31, 2018.

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, 2017 for $567,763.

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, 2019, 2018 and 2017, 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.

27. Non-controlling interest

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

		Amount
Balances at January 1, 2017	$	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

	Amount
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
Equity in results for the year ended December 31, 2019	158,064
Other movements in capital	(75,243)
Ending balance at December 31, 2019	$ 1,961,563

b. Following is the detail of the Non-Controlling interest of the main subsidiaries of the Entity:

Subsidiary	Country	Percentages of the non-controlling interest 31/12/2019	31/12/2018	31/12/2017	Income (loss) attributable to the non-controlling interest 31/12/2019	31/12/2018	31/12/2017	Accumulated non-controlling interest 31/12/2019	31/12/2018	31/12/2017
Food Service Project, S.L. (Grupo Zena)	Spain	33.76%	33.76%	28.24%	$ 169,700	$ 200,690	$ 192,660	$ 1,797,622	$ 1,704,079	$ 978,346
Operadora de Franquicias Alsea, S.A. de C.V.	Mexico	20.00%	20.00%	20.00%	2,530	(8,350)	(18,915)	66,248	63,718	68,446
Estrella Andina, S.A.S.	Colombia	30.00%	30.00%	30.00%	(12,404)	(10,936)	(6,606)	58,561	65,114	62,236

28. 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, 2019, 2018 and 2017, 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:

	2019	2018	2017
Net profit (in thousands of Mexican pesos):			
Attributable to shareholders	$ 926,669	$ 953,251	$ 1,089,498
Shares (in thousands of shares):			
Weighted average of shares outstanding	838,579	835,640	832,818
Basic and diluted net income per share of continuous and discontinued operations (cents per share)	$ 1.11	$ 1.14	$ 1.31
Basic and diluted net income per share of continuous operations (cents per share)	$ 1.11	$ 1.14	$ 1.31

29. Revenues

	2019	2018	2017
Revenues from the sale of goods	$ 56,594,841	$ 44,991,698	$ 41,378,982
Services	850,163	742,915	767,169
Royalties	709,613	421,977	382,970
Total	$ 58,154,617	$ 46,156,590	$ 42,529,121

30. Cost of sales

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

	2019	2018	2017
Food and beverage of costs	$ 16,457,416	$ 13,438,000	$ 12,467,682
Royalties of costs	160,732	158,930	145,000
Other costs	545,873	590,578	310,507
Total	$ 17,164,021	$ 14,187,508	$ 12,923,189

31. Other operating costs and expenses

	2019	2018	2017
Employee benefits	$ 16,044,061	$ 11,557,626	$ 10,650,386
Services	2,872,443	2,533,938	2,033,239
Advertising	2,026,539	1,644,825	1,614,118
Royalties	1,779,165	1,460,437	1,389,122
Repair and maintenance	1,080,830	923,279	854,341
Supplies	928,544	852,515	806,004
Distribution	613,309	644,022	548,755
Pre-operative	140,470	185,288	178,108
Other	2,407,739	1,846,818	1,561,059
Total	$ 27,893,100	$ 21,648,748	$ 19,635,132

32. Other (income) expenses, net

It is integrated as follows:

	2019	2018	2017
Legal expenses	$ 3,244	$ 3,305	$ 42,505
Loss (gain) on fixed asset disposals, net	10,994	(70,374)	79,378
PTU on tax base	28,888	22,205	29,691
Inflation, interest on tax refund and other income not taxable	42,737	1,301	(52,534)
Gain on disposal of investment of associated - Grupo Axo	-	-	(608,817)
Group VIPS and Clover acquisition expenses	42,006	5,144	-
Other (income) expenses, net	(7,926)	5,695	(17,571)
Total	$ 119,943	$ (32,724)	$ (527,348)

33. 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 period ended December 31, 2019, 2018 and 2017 was of approximately \$134,000, \$185,740 and \$183,820, 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.

34. Financial information by segments

The Entity is organized into three large operating divisions comprised of sales of food and beverages in Mexico and South America (LATAM - Argentina, Chile, Colombia, Uruguay and Brazil) and Europe (Spain, Portugal, France and Netherlands), 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, Europe 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, 2019, 2018 and 2017 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 Europe			Consolidated		
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
Income												
From third parties	$ 27,217	$ 25,462	$ 23,676	$ 9,732	$ 10,832	$ 10,283	$ 21,206	$ 9,862	$ 8,570	$ 58,155	$ 46,156	$ 42,529
Income	27,217	25,462	23,676	9,732	10,832	10,283	21,206	9,862	8,570	58,155	46,156	42,529
Costs	8,398	8,032	7,392	3,190	3,430	3,179	5,576	2,726	2,352	17,164	14,188	12,923
Operating costs	10,066	11,530	10,759	4,710	5,906	5,541	9,834	5,220	4,492	24,610	22,656	20,792
EBITDA store	8,753	5,900	5,525	1,832	1,496	1,563	5,796	1,916	1,726	16,381	9,312	8,814
Depreciation and amortization	3,921	2,123	1,966	907	572	463	1,379	419	323	8,047	3,114	2,752
Non-operating expenses	1,617	1,553	1,033	664	803	862	1,534	549	452	3,763	2,905	2,347
Utility operation	3,215	2,224	2,526	261	121	238	894	948	951	4,571	3,293	3,715
Interest paid										3,123	1,628	1,307
Earned interests										(101)	(57)	(45)
Other financial expenses										(172)	(115)	366
										2,850	1,456	1,628
Participation in associates										(1)	-	-
Income taxes										635	698	835
Consolidated net income for the year										1,085	1,139	1,253
Noncontrolling interest										158	186	163
Majority net income										$ 927	$ 953	$ 1,090

	Food and beverages Mexico			Food and beverages LATAM			Food and beverages Europe			Consolidated		
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
Assets	$ 46,557	$ 23,610	$ 24,377	$ 4,922	$ 5,469	$ 5,135	$ 21,077	$ 6,652	$ 5,265	$ 72,556	$ 35,731	$ 34,777
Investment in productive assets												
Investment in associates	85	14	-	-	-	-	-	-	-	85	14	-
Investment in Fixed Assets and Intangible	1,718	3,014	3,136	649	1,155	985	1,404	14,428	653	3,771	18,597	4,774
Total assets	$ 48,360	$ 26,638	$ 27,513	$ 5,571	$ 6,624	$ 6,120	$ 22,481	$ 21,080	$ 5,918	$ 76,412	$ 54,342	$ 39,551
Total liability	$ 39,818	$ 25,315	$ 20,347	$ 2,466	$ 1,638	$ 4,244	$ 22,586	$ 13,938	$ 4,358	$ 64,870	$ 42,704	$ 28,949

35. Foreign currency position

Assets and liabilities expressed in US dollars, shown in the reporting currency at December 31, 2019, 2018 and 2017, are as follows:

	Thousands of dollars 2019	Thousands of dollars 2018	Thousands of dollars 2017
Assets	$ 3,238,135	$ 2,331,077	$ 1,575,514
Liabilities	(15,310,246)	(14,955,348)	(6,307,317)
Net monetary liability position	$ (12,072,111)	$ (12,624,271)	$ (4,731,803)

The exchange rate to the US dollar at December 31, 2019, 2018 and 2017 was $18.87, $19.65 and $19.74, respectively. At March 31, 2020, date of issuance of the consolidated financial statements, the exchange rate was $24.42 to the US dollar.

The exchange rates used in the different conversions to the reporting currency at December 31, 2019, 2018 and 2017 and at the date of issuance of these consolidated financial statements are shown below:

Country of origin	Currency	Closing exchange rate	Issuance March 31, 2020
2019			
Argentina	Argentinian peso (ARP)	0.3162	0.3647
Chile	Chilean peso (CLP)	0.0235	0.0276
Colombia	Colombian peso (COP)	0.0054	0.0057
Spain	Euro (EUR)	20.8014	25.9127

Country of origin	Currency	Closing exchange rate
2018		
Argentina	Argentinian peso (ARP)	0.5192
Chile	Chilean peso (CLP)	0.0283
Colombia	Colombian peso (COP)	0.0061
Spain	Euro (EUR)	22.5340

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

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

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

36. 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 15).

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, 2019, 2018 and 2017, these obligations have been met.

Contingent liabilities:

a. In September 2014, the Finance Department of Mexico City determined taxable income for the company denominated Italcafé, S.A. de C.V. (Italcafé) based on amounts deposited in its bank accounts derived from different restaurants owned by Grupo Amigos de San Ángel, S.A. de C.V. (GASA), regardless of the fact that these revenues were accrued by the latter with all the respective tax effects. As the authority concluded that the observations were partially overturned, in January 2019, Italcafé filed a proceeding for annulment against the partial favorable ruling. This legal proceeding is currently being analyzed by the High Court of the First Section of the Tax Court, which has been designated to issue a verdict.

   In March 2019, the Tax Administration Service (SAT) determined tax liabilities for GASA and Italcafé derived from the review performed for 2010 and 2011, respectively, with regard to the deposits made in their bank accounts. Accordingly, the companies filed a motion for reconsideration and, in August and November 2019, filed a proceeding for annulment against the rulings issued in the motions for reconsideration.

   Please note that the former owners of GASA and Italcafé will assume the economic effects derived from the aforementioned tax liability due to the terms and conditions established in the agreements executed by Alsea with these vendors.

b. The tax authorities conducted an inspection of Alsea and its subsidiary, Operadora Alsea de Restaurantes Mexicanos, S.A., de C.V. (OARM) for 2014, which primarily focused on tax aspects related to the transactions performed to acquire the Vips division from Wal-Mart de México, S.A.B. de C.V. that year.

   The tax authorities issued payment requests, the most significant of which requests the payment of taxes for alleged income derived from the acquisition of goods from ALSEA for the total amount of $3,881 million pesos, including restatement.

   Alsea and its external attorneys consider that they have sufficient elements to show that the payment requests issued by the tax authorities are unlawful, while demonstrating that Alsea has fulfilled its tax obligations in time and form with regard to the aforementioned purchase-sale transaction. Accordingly, a provision has not been created for this purpose.

Motions for reconsideration have been filed with the tax authorities and are still awaiting rulings in order to adequately value all the elements available for challenging the unlawfulness of the aforementioned payment requests.

The transaction was recorded for accounting purposes according to IFRS and, more specifically, International Accounting Standards (IAS) 27 and 28, Consolidated and separate financial statements, and Investments in Associates and Joint Ventures, respectively. These standards establish that, in a business combination, the surplus value forming part of the book value of an investment in a subsidiary is not recognized separately; i.e., the surplus value generated by the acquisition of Vips must be presented together with the investment in shares in the separate financial statements of OARM because it does not fulfill the definition of a separate asset in the individual financial statements.

In the separate financial statements of Alsea, the acquisition of the VIPS Brand is only referred to as the acquisition of the intellectual property of the VIPS brand.

Alsea applied the accounting or purchase method contained in IFRS 3, Business combination, which is only applicable to the buyer in the Entity's consolidated financial statements. When applying this method, the assets and liabilities acquired through the purchase of this business included the identified intangible assets of the acquired company, the assets and liabilities covered by the previous terms are matched with the amount paid and the difference between these values is recorded as surplus value at the consolidated level.

As discussed above, purchase accounting is a special accounting treatment; the respective adjustments are only recognized in the consolidated financial statements, but are not recognized in the financial statements of the acquired entity or in the separate financial statements of the buyer.

37. Subsequent events

During February 2020, the generalized COVID-19 crisis became more acute. Given the importance of this issue, the Entity has prioritized the health and safety of its customers, employees and the communities in which it operates, while also complying with all the regulations and measures defined by the authorities in all the geographic regions where it operates.

The financial and operating measures which will be implemented to mitigate the negative effects that will undoubtedly result from COVID-19 are described below. Management is unable to estimate the future impacts the crisis will have on its consolidated financial position or results of operations, however with regards to the recoverability of its assets, including its working capital, deferred taxes, intangible assets it does not foresee any material impacts given it is only expected to impact the current year, but not the projections prepared for following years.

- At the issuance date of the consolidated financial statements, in line with government mandates, establishments have been temporarily closed in Spain, Portugal, France and the Benelux countries. In the remaining countries, stores are currently operating at 92% in Argentina, 52% in Chile and 95% in Colombia. In Mexico, 99% of the points of sale are still open, albeit while implementing strict hygiene and social distancing protocols. Delivery, carry-out and drive-thru are permitted in all markets and represent significant sources of revenue given the circumstances.

- Management is committed to maximize the sales of the business units that have remained open to support the Entity's customers through one of the delivery, carry-out and drive-thru formats, as well as through the main aggregators.

- Leverage the delivery strength of Domino's Pizza and attempt to keep all the branches open in Mexico and Colombia. Efforts will also be made to restart the Domino's Pizza delivery service in Spain as soon as possible.

- The planned investment in assets of $4,500,000 to $5,000,000 for 2020 has been reduced. The opening of new stores will be postponed whenever possible. Any project that is not essential for continuing operations, including important remodeling and maintenance projects, and the technology projects required for CapEx and OpEx purposes, and which are not indispensable, will also be canceled or postponed. CapEx is no expected to be below $2,000,000 in 2020.

- General expenses are being reduced with immediate effect.

- All nonessential third-party contracts will be halted. Marketing and advertising will be drastically reduced to minimize expenses.

- The devaluation effect of the currencies utilized by Alsea for costs will be minimized, especially in Mexico where approximately 25% of the cost is denominated in US dollars, through the use of pricing strategies, the promotion of local products, the reduction of SKU's and optimization of inventory management based on expected sales.

- Working capital will be managed in an extremely strict manner.

- Our key market rentals will be renegotiated to seek exemptions for those months without operations.

- The share repurchase fund will be maintained given the depressed share price, while always preserving the Entity's liquidity.

- For financial purposes, the Entity has significant liquidity that will be sufficient for the second half of 2020, while also covering outstanding debt interest, even under a scenario in which if European operations remain closed and Mexico continues with a limited operation. All debt covenants are being fulfilled (below 4x Gross Debt / EBITDA).

Based on the decisive measures being implemented at the date of issuance of the consolidated financial statements, the Entity expects to undergo a sustained recovery once the crisis ends.

38. Authorizatio of consolidated financial statement

The consolidated financial statements were authorized for issuance on March 31, 2020 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.

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