FEMSA

Consolidated Financial Statements

ANNUAL REPORT 2016

Consolidated Financial Statements

CONTENTS

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. Y SUBSIDIARIAS
MONTERREY, N.L., MEXICO

To the Board of Directors
Fomento Económico Mexicano, S.A.B. de C.V. (the "Company"):

Pursuant to Articles 42 and 43 of the Mexican Securities Law (Ley del Mercado de Valores) and the Charter of the Audit Committee, we submit to the Board of Directors our report on the activities performed during, 2016. We considered the recommendations established in the Code of Corporate Best Practices and, since the Company is a publicly-listed company in the New York Stock Exchange (¨NYSE¨), we also complied with the applicable provisions set forth in Sarbanes-Oxley Act. We met at least on a quarterly basis and, based on a work program, we carried out the activities described below:

Risk Assessment

We periodically evaluated the effectiveness of the Enterprise Risk Management Process, which is established to identify, measure, record, assess, and manage the Company´s risks, as well as for the implementation of follow-up measures to ensure its effective operation.

We reviewed with Management and both External and Internal Auditors of the Company, the key risk factors that could adversely affect the Company´s operations and assets, and we determined that they have been appropriately identified, managed, and considered in both audit programs.

Internal Control

We verified the compliance by Management of its responsibilities regarding internal control, and the establishment of general guidelines and the procedures necessary for their application and compliance. This process included presentations to the Audit Committee by the area responsible of the most important subsidiaries. Additionally, we followed the comments and remarks made in this regard by External Auditors as a result of their findings.

We verified the actions taken by the Company in order to comply with section 404 of Sarbanes-Oxley Act regarding the self-assessment of internal controls. During this process, we made sure that a follow up on main preventive and corrective actions implemented concerning internal control issues that required improvement, were taken, and the submission to the authorities of requested information.

External Audit

We recommended to the Board of Directors the appointment of the external auditors (who have been the same for the past seven years) for the Company and its subsidiaries for fiscal year 2016. For this purpose, we verified their independence and their compliance with the requirements established by applicable laws and regulations. We analyzed their approach, work program as well as their coordination with Internal Audit.

We were in permanent and direct communication with them to be timely informed of their progress and their observations, and also to consider any comments that resulted from their review of the quarterly financial statements. We were timely informed of their conclusions and reports, regarding the annual financial statements and followed up on the actions implemented resulting from the findings and recommendations provided during the year.

We authorized the fees of the external auditors for their annual audit and other permitted services, and verified that such services would not compromise their Independence.

With the appropriate input from Management, we carried out an evaluation of their services for the previous year and initiated the evaluation process for fiscal year 2016.

Internal Auditing

In order to maintain its independence and objectivity, the Internal Audit area reports to the Audit Committee therefore:

We reviewed and approved the annual work program and budget, in order to comply with the requirements of Sarbanes-Oxley Act. For its preparation, the Internal Audit area participated in the risk assessment process and the validation of the internal control system.

We received periodic reports regarding the progress of the approved work program, any deviations and the causes thereof.

We followed up the implementation of the observations developed by Internal Audit.

We confirmed the existence and validated the implementation of an Annual Training program.

We reviewed and discuss with the responsible of the IA function the evaluations of the Internal Audit service performed by the responsible of each business unit and the Audit Committee.

Financial Information, Accounting Policies and Reports to the Third Parties

We reviewed the quarterly and annual financial statements of the Company with the individuals responsible for its preparation and recommended to the Board of Directors, its approval and authorize its publication. As part of this process, we analyzed the comments of the external auditors and confirm that the criteria, accounting policies and information used by Management to prepare financial information were adequate, sufficient, and consistently applied with the prior year. As a consequence, the information submitted by Management reasonably reflects the financial position of the Company, its operating results and cash flows for the fiscal year ending on December 31, 2016.

We also reviewed the quarterly reports prepared by Management and submitted to shareholders and the financial community, verifying that such information was prepared under International Financial Reporting Standards (IFRS) and the same accounting criteria for preparing the annual information. We also reviewed the existence of an integral process that provides a reasonable assurance of fairness in the information content. To conclude, we recommended to the Board of Directors to authorize the release of such information.

Our reviews also included reports and any other financial information required by Mexican and United States regulatory authorities.

We reviewed and approved the changes to the accounting standards used by the Company that became effective in 2016, recommending their approval to the Board of Directors.

Compliance with Applicable Laws and Regulations, Legal Issues and Contingencies

We verified the existence and reliability of the Company-established controls to ensure compliance with the various legal provisions applicable to the Company. When required, we verified its appropriate disclosure in the financial reports.

We made periodic reviews of the various tax, legal and labor contingencies of the Company. We supervised the efficiency of the procedures established for their identification and follow-up, as well as their adequate disclosure and recording.

Code Of Conduct

We reviewed the new version of the Business Code of Ethics of the Company which incorporates among other changes an update of its values, validating that it includes a compliance provision with the Anti-Money Laundering laws in the countries where we operate, as well as compliance with anti-corruption laws (FCPA), and recommended its approval to the Board of Directors.

With the support of Internal Audit, we verified the compliance of the Business Code of Ethics, the existence of adequate processes to update it and its communication to employees, as well as the application of sanctions in those cases where violations were detected.

We reviewed the complaints received in the Company´s Whistle-Blowing System and followed up on their correct and timely handling.

Training

To comply with the training requirements of our charter, during the year, The Audit Committee members attended specific courses on topics as internal controls, risk management and auditing.

Administrative Activities

We held regular meetings with Management to be informed of any relevant or unusual activities and events. We also met individually with external and internal auditors to review their work, and observations.

In those cases where we deemed advisable, we requested the support and opinion from independent experts. We are not aware of any significant non-compliance with the operating policies, the internal control system or the accounting records of the Company.

We held executive meetings and when applicable reviewed with Management our resolutions.

We submitted quarterly reports to the Board of Directors, on the activities performed by the Committee.

We reviewed the Audit Committee Charter and made the amendments that we deemed appropriate, submitting such changes for its approval by the Board of Directors.

We verified that the financial expert of the Committee meets the technical background and experience requirements to be considered as such, and that each Committee Member meets the independence requirements set forth in by the applicable laws and regulations.

Our activities were duly documented in the minutes prepared for each meeting. Such minutes were properly reviewed and approved by Committee members.

We made our annual performance self-assessment, and submitted the results to the Chairman of the Board of Directors.

Sincerely

February 24, 2017

José Manuel Canal Hernando

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. Y SUBSIDIARIAS
MONTERREY, N.L., MEXICO

The Board of Directors and Shareholders of Fomento Económico Mexicano, S.A.B. de C.V.

Opinion

We have audited the accompanying consolidated financial statements of Fomento Económico Mexicano, S.A.B. de C.V. and its subsidiaries (collectively "the Group"), which comprised the related consolidated statement of financial position as of December 31, 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 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 the Group as of December 31, 2016, and their financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with International Standard on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico according with the "Codigo de Etica Profesional del Instituto Mexicano de Contadores Publicos" ("IMCP Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the accompanying consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Investment in Coca-Cola - FEMSA Philippines and subsequent consolidation in 2017

Description of the key audit matter

As disclosed in Notes 10 and 20.7 to the consolidated financial statements, up to December 31, 2016, the Group accounts using the equity method for its 51% ownership in Coca-Cola FEMSA Philippines ("CCFPI"), and holds potential voting rights in CCFPI through a call option to acquire the remaining 49% of CCFPI from The Coca-Cola Company ("TCCC") at any time through January 2020, and also has a put option to sell its 51% ownership back to TCCC at any time from January 2018 through January 2019.

The estimation of fair value of CCFPI performed by management is a key audit matter as it impacts the significant judgment applied to evaluate whether the call option to acquire the remaining 49% is substantive, which generally occurs when the call option is in-the-money, and consequently whether the potential voting rights are probable of being executed. The results of these evaluations would impact whether the Group should consolidate CCFPI rather than to apply the equity method of accounting. Further, the fair value of CCFPI is used also to assess whether the Company's investment in CCFPI is impaired; thus an additional key audit matter.

The complexity of this analysis and the fact that related unobservable data (specifically management projections of future cash flows of CCFPI) requires a high degree of estimation uncertainty, resulted in specific focus during our audit.

On January 25, 2017, the Company obtained control without transfer of additional consideration over CCFPI and started consolidating such subsidiary. As the acquisition occurred before the issuance of the consolidated financial statements, pursuant to the requirements of IFRS 3 the Company has disclosed the purchase price allocation in Note 28 of the consolidated financial statements.

Based on the quantitative materiality of the acquisition and the significant degree of estimates required of management in determining the purchase price allocation, we have determined this to be a key audit matter.

How our audit addressed the matter

We evaluated management assumptions related to compound annual growth rates, projected cost and expense savings among others key assumptions used in both an IFRS 13 Level 3 fair value and an IAS 36 value in use computation by 1) assessing the historical accuracy of the Group's budgetary estimates, 2) obtaining and analyzing the Group´s business strategies supporting the future cash flow estimates, and 3) evaluating the macroeconomic environment including comparisons to the performance of market participants for which publicly available data is available. We also tested the Group's procedures around the preparation of the budget, upon which the value-in-use model is based and management's assessment of the probability that the potential voting rights might be executed and whether they were substantive based on the aforementioned fair value estimates and the call option's written terms by reviewing 1) management´s valuation model of the call option and analysis of whether the call option is in or out of the money, and 2) management´s assessment of the qualitative matters in regards to why the call option is not substantive in nature. We involved our internal specialists when performing these procedures. Finally, we evaluated the related disclosures made in the consolidated financial statements.

In regards to this acquisition, we assessed the identification of the acquired assets and assumed liabilities. We have compared this identification with our knowledge of the Group's business, business plans, and management's explanations on the rationale of the acquisition. We have tested management´s fair values of assets and liabilities of these acquisitions based on commonly used valuation models with the assistance of our internal specialists. We further assessed the adequacy of the company's disclosures on these business combinations.

Impairment of distribution rights, goodwill and trade mark rights

Description of the key audit matter

As disclosed in Note 12 to the consolidated financial statements, Distribution Rights, Goodwill and Trade mark rights were Ps.143,420 million as of December 31, 2016. Given the materiality of distribution rights, goodwill and trade mark rights in relation to the consolidated financial statements and the significant judgment and estimation required by management when evaluating these accounts for impairment, we focused our auditing efforts in this area in particular for Brazil and Chile due to recent acquisitions that resulted in significant additions to these accounts and Venezuela given the general deterioration of the country's macroeconomic environment.

How our audit addressed the matter

We evaluated management assumptions related to compound annual growth rates, projected cost and expense savings among others key assumptions used in the impairment testing by 1) assessing the historical accuracy of the Management's budgetary estimates, 2) obtaining and analyzing Management´s business strategies supporting the future cash flow estimates, and 3) evaluating the macroeconomic environment including comparisons to the performance of market participants for which publicly available data is available.

We also assessed management's sensitivity analyses focusing on the projected compound annual growth rates and projected cost savings, mainly. We involved our internal specialists when performing these procedures. In addition, we tested the Group's procedures around the preparation of the budget, upon which the value-in-use model is based.

Furthermore, we assessed the related disclosures made in the consolidated financial statements.

Venezuela

Description of the key audit matter

Venezuela is a challenging economic and political environment. Challenges of operating in Venezuela include, but are not limited to, the existence of multiple foreign currency exchange rates, lack of exchangeability across all exchange mechanisms, limited access to certain key raw materials, and periodic government intervention into operations including continually changing laws and regulations.

We focused on this area because of the following key judgments and sources of estimation uncertainty include:

1) Whether the Group continues to have control over relevant activities in its Venezuela operations under IFRS 10 given the foreign currency restrictions, as well as other operating challenges established by the economic and political environment.
2) The appropriate exchange rate to be used to translate foreign currency denominated liabilities, including the effect of security advances, and consolidate foreign operations, due to the existence of multiple foreign exchange rates available.
3) The recoverability of long-lived assets related to the Group's Venezuela operations as described in the key audit matter "Impairment of distribution rights and goodwill," section above.

As disclosed in Note 3.3 of the consolidated financial statements, the Group has, over the past few years, accumulated significant amounts of accumulated other comprehensive loss in an amount of Ps. 20,230 million as of December 31, 2016. To the extent that the Group losses control of its Venezuela operations such amounts would be required to be recognized in the Group's income statement as a loss.

How our audit addressed the matter

We evaluated management´s assessment of the relevant activities attributable to the Venezuela operations under IFRS 10. This included consideration of management's ability to control relevant activities such as budgeting, establishing sales strategies, pricing, financial decisions, cost infrastructure, among other matters and the analysis of the Group exposure to variable returns in their investment in Venezuela.

With regards to measurement of foreign liabilities in Venezuela we focused our audit efforts on assessing management's judgment applied in selecting the most appropriate exchange rate at which such foreign liabilities should be measured, including amounts payable to those vendors for which off-shore security advances have been provided and for these vendors we have also inspected the relevant documentation and performed confirmation of balances and terms and conditions; with the assistance of our internal specialists we analyzed the legal and other regulatory implications.

We also assessed the adequacy of the related disclosures made in the consolidated financial statements.

Recoverability of the deferred tax assets

Description of the key audit matter

As disclosed on Note 24 to the consolidated financial statements, the Group had Ps.27,452 million of net operating losses carrying forwards as of December 31, 2016; such amount relates to Brazil, Colombia and Mexico. Brazilian amounts are mainly attributable to deductions of goodwill amortization generated on recent business acquisitions while the amounts generated in Mexico related to tax losses generated in recent years.

We focus on this area because the recognition of deferred tax assets relies on the significant application of judgement by management in respect of assessing the probability and sufficiency of future taxable profits and ongoing tax planning strategies, therefore, due to the size of the Group's deferred tax assets of Brazil and Mexico and the associated uncertainty surrounding recoverability, this is considered a key audit matter.

How our audit addressed the matter

Our audit procedures, among others, included the assessment of controls over the recognition and measurement of deferred tax assets and the evaluation of assumptions used in projecting the Group's future taxable profits in Mexico and Brazil. With the assistance of our internal tax specialists, we assessed the feasibility of the Group's future tax planning strategies that may enable the materialization of deferred tax asset of the Company.

When applicable, our audit procedures also focused on the review of management´s projections of future cash flows in relation to the likelihood of generating sufficient taxable profits based on forecasts of anticipated future cost savings, growth rates, discount rates, and other key assumptions. We involved our internal specialists when performing these procedures.

We also evaluated the related disclosures made in the consolidated financial statements.

Business acquisitions

Description of the key audit matter

On December 6, 2016 the Group acquired Vonpar, S.A. for a total consideration of Ps.20,992 million and completed during the year smaller acquisitions which in the aggregate amounted to Ps.5,612 million. For these acquisitions, the Company made a preliminary purchase price allocation in which the consideration transferred was allocated to the preliminary fair values of the various assets and liabilities including significant contingencies of the acquired company. This is outlined in Note 4 of the consolidated financial statements. The preliminary purchase price allocation and the analysis of the accounting, and the evaluation of the consideration transferred which in the case of Vonpar it involved embedded derivatives, are key audit matter.

How our audit addressed the matter

We audited for acquisitions in scope, the corresponding purchase agreements and analyzed the propriety of the accounting of the consideration transferred, in the case of Vonpar including the identification of the embedded derivatives. We also tested with the assistance of our risk specialists the measurement of the fair values of the various embedded derivatives including the option to convert the promissory note into equity instruments as part of the consideration transferred. In regards to these acquisitions, we audit the identification of the acquired assets and assumed liabilities. We have assessed this identification with our knowledge of the Group's business, business plans, and management's explanations on the rationale of the acquisition, and tested management´s estimated fair values of assets and liabilities of these acquisitions. We further assessed the adequacy of the company's disclosures of these business combinations in the consolidated financial statements.

Other information included in the Group's 2016 Annual Report

Other information comprises of the information included in the Group's 2016 Annual Report presented to the Comisión Nacional Bancaria y de Valores ("CNBV") other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated, as issuing the declaratory on annual report requested by CNBV. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause The Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion of 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 the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide to the Audit Committee a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report, is who signs It.

Mancera, S.C.
A member practice of
Ernst & Young Global Limited

Américo de la Paz de la Garza

February 28, 2017
Monterrey, N.L. México

Consolidated Statements of Financial Position

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

As of December 31, 2016 and 2015. Amounts expressed in millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.).	Note		December 2016 (*)		December 2016		December 2015
ASSETS							
Current Assets:							
Cash and cash equivalents	5	$	**2,117**	**Ps.**	**43,637**	Ps.	29,396
Investments	6		**6**		**120**		19
Accounts receivable, net	7		**1,272**		**26,222**		18,012
Inventories	8		**1,549**		**31,932**		24,680
Recoverable taxes	24		**447**		**9,226**		8,544
Other current financial assets	9		**131**		**2,705**		2,418
Other current assets	9		**199**		**4,109**		3,654
Total current assets			**5,721**		**117,951**		86,723
Investments in associates and joint ventures	10		**6,238**		**128,601**		111,731
Property, plant and equipment, net	11		**4,958**		**102,223**		80,296
Intangible assets, net	12		**7,434**		**153,268**		108,341
Deferred tax assets	24		**585**		**12,053**		8,293
Other financial assets	13		**744**		**15,345**		8,955
Other assets	13		**785**		**16,182**		4,993
TOTAL ASSETS		**$**	**26,465**	**Ps.**	**545,623**	Ps.	409,332
LIABILITIES AND EQUITY							
Current Liabilities:							
Bank loans and notes payable	18	**$**	**93**	**Ps.**	**1,912**	Ps.	2,239
Current portion of long-term debt	18		**260**		**5,369**		3,656
Interest payable			**47**		**976**		597
Suppliers			**2,302**		**47,465**		35,773
Accounts payable			**564**		**11,624**		9,236
Taxes payable			**551**		**11,360**		9,136
Other current financial liabilities	25		**368**		**7,583**		4,709
Total current liabilities			**4,185**		**86,289**		65,346
Long-Term Liabilities:							
Bank loans and notes payable	18		**6,401**		**131,967**		85,969
Employee benefits	16		**216**		**4,447**		4,229
Deferred tax liabilities	24		**535**		**11,037**		6,230
Other financial liabilities	25		**355**		**7,320**		495
Provisions and other long-term liabilities	25		**892**		**18,393**		5,207
Total long-term liabilities			**8,399**		**173,164**		102,130
Total liabilities			**12,584**		**259,453**		167,476
Equity:							
Controlling interest:							
Capital stock			**162**		**3,348**		3,348
Additional paid-in capital			**1,248**		**25,733**		25,807
Retained earnings			**8,187**		**168,796**		156,532
Cumulative other comprehensive income (loss)			**682**		**14,027**		(4,163)
Total controlling interest			**10,279**		**211,904**		181,524
Non-controlling interest in consolidated subsidiaries	21		**3,602**		**74,266**		60,332
Total equity			**13,881**		**286,170**		241,856
TOTAL LIABILITIES AND EQUITY		**$**	**26,465**	**Ps.**	**545,623**	Ps.	409,332

(*) Convenience translation to U.S. dollars ($) – See Note 2.2.3
The accompanying notes are an integral part of these consolidated statements of financial position.

Consolidated Income Statements

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

For the years ended December 31, 2016, 2015 and 2014. Amounts expressed in millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.), except per share amounts.	Note		2016 (*)		2016		2015		2014
Net sales		$	**19,335**	**Ps.**	**398,622**	Ps.	310,849	Ps.	262,779
Other operating revenues			**42**		**885**		740		670
Total revenues			**19,377**		**399,507**		311,589		263,449
Cost of goods sold			**12,189**		**251,303**		188,410		153,278
Gross profit			**7,188**		**148,204**		123,179		110,171
Administrative expenses			**714**		**14,730**		11,705		10,244
Selling expenses			**4,634**		**95,547**		76,375		69,016
Other income	19		**56**		**1,157**		423		1,098
Other expenses	19		**287**		**5,909**		2,741		1,277
Interest expense	18		**468**		**9,646**		7,777		6,701
Interest income			**63**		**1,299**		1,024		862
Foreign exchange gain (loss), net			**55**		**1,131**		(1,193)		(903)
Monetary position gain (loss), net			**117**		**2,411**		(36)		(319)
Market value gain on financial instruments			**9**		**186**		364		73
Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method			**1,385**		**28,556**		25,163		23,744
Income taxes	24		**383**		**7,888**		7,932		6,253
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	10		**316**		**6,507**		6,045		5,139
Consolidated net income		$	**1,318**	**Ps.**	**27,175**	Ps.	23,276	Ps.	22,630
Attributable to:									
Controlling interest			**1,025**		**21,140**		17,683		16,701
Non-controlling interest			**293**		**6,035**		5,593		5,929
Consolidated net income		$	**1,318**	**Ps.**	**27,175**	Ps.	23,276	Ps.	22,630
Basic net controlling interest income:									
Per series "B" share	23	$	**0.05**	**Ps.**	**1.05**	Ps.	0.88	Ps.	0.83
Per series "D" share	23		**0.06**		**1.32**		1.10		1.04
Diluted net controlling interest income:									
Per series "B" share	23		**0.05**		**1.05**		0.88		0.83
Per series "D" share	23		**0.06**		**1.32**		1.10		1.04

(*) Convenience translation to U.S. dollars ($) – See Note 2.2.3
The accompanying notes are an integral part of these consolidated income statements.

Consolidated Statements of Comprehensive Income

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

For the years ended December 31, 2016, 2015 and 2014. Amounts expressed in millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.)	Note		2016 (*)		2016		2015		2014
Consolidated net income		$	**1,318**	**Ps.**	**27,175**	Ps.	23,276	Ps.	22,630
Other comprehensive income:									
Items that may be reclassified to consolidated net income, net of tax:									
Valuation of the effective portion of derivative financial instruments	20		**84**		**1,732**		122		493
Loss on hedge of a net investment in a foreign operations	18		**(70)**		**(1,443)**		-		-
Exchange differences on the translation of foreign operations and associates			**1,492**		**30,763**		(2,234)		(12,256)
Share of other comprehensive (loss) income of associates and joint ventures	10		**(108)**		**(2,228)**		282		1,322
Total items that may be reclassified			**1,398**		**28,824**		(1,830)		(10,441)
Items that will not to be reclassified to consolidated net income in subsequent periods, net of tax:									
Remeasurements of the net defined benefit liability share of other comprehensive (loss) income of associates and joint ventures			**(49)**		**(1,004)**		169		(881)
Remeasurements of the net defined benefit liability			**(8)**		**(167)**		144		(361)
Total items that will not be reclassified			**(57)**		**(1,171)**		313		(1,242)
Total other comprehensive income (loss), net of tax			**1,341**		**27,653**		(1,517)		(11,683)
Consolidated comprehensive income, net of tax		$	**2,659**	**Ps.**	**54,828**	Ps.	21,759	Ps.	10,947
Controlling interest comprehensive income			**1,908**		**39,330**		19,165		11,283
Non-controlling interest comprehensive income (loss)			**751**		**15,498**		2,594		(336)
Consolidated comprehensive income, net of tax		$	**2,659**	**Ps.**	**54,828**	Ps.	21,759	Ps.	10,947

(*) Convenience translation to U.S. dollars ($) – See Note 2.2.3
The accompanying notes are an integral part of these consolidated statements of comprehensive income.

Consolidated Statements of Changes in Equity

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

For the years ended December 31, 2016, 2015 and 2014.
Amounts expressed in millions of Mexican pesos (Ps.)

		Capital Stock		Additional Paid-in Capital		Retained Earnings		Valuation of the Effective Portion of Derivative Financial Instrument
Balances at January 1, 2014	Ps.	3,346	Ps.	25,433	Ps.	130,840	Ps.	181
Net income		-		-		16,701		-
Other comprehensive income, net of tax		-		-		-		126
Comprehensive income		-		-		16,701		126
Dividends declared		-		-		-		-
Issuance (repurchase) of shares associated with share-based payment plans		1		216		-		-
Other movements of equity method of associates, net of taxes		-		-		(419)		-
Balances at December 31, 2014		3,347		25,649		147,122		307
Net income		-		-		17,683		-
Other comprehensive income, net of tax		-		-		-		299
Comprehensive income		-		-		17,683		299
Dividends declared		-		-		(7,350)		-
Issuance of shares associated with share-based payment plans		1		158		-		-
Acquisition of Grupo Socofar (see Note 4)		-		-		-		-
Contributions from non-controlling interest		-		-		-		-
Other movements of equity method of associates, net of taxes		-		-		(923)		-
Balances at December 31, 2015		3,348		25,807		156,532		606
Net income		-		-		21,140		-
Other comprehensive income, net of tax		-		-		-		2,057
Comprehensive income		-		-		21,140		2,057
Dividends declared		-		-		(8,355)		-
Issuance of shares associated with share-based payment plans		-		(74)		-		-
Other equity instruments from acquisition of Vonpar (see Note 4)		-		-		-		-
Other acquisitions and remeasurements (see Note 4)		-		-		-		-
Contributions from non-controlling interest		-		-		-		-
Other movements of equity method of associates, net of taxes		-		-		(521)		-
Balances at December 31, **2016**	**Ps.**	**3,348**	**Ps.**	**25,733**	**Ps.**	**168,796**	**Ps.**	**2,663**

The accompanying notes are an integral part of these consolidated statements of changes in equity.

Exchange Differences on the Translation of Foreign Operations and Associates	Remeasurements of the Net Defined Benefit Liability	Total Controlling Interest	Non-Controlling Interest	Total Equity
Ps. 779	Ps. (1,187)	Ps. 159,392	Ps. 63,158	Ps. 222,550
-	-	16,701	5,929	22,630
(4,412)	(1,132)	(5,418)	(6,265)	(11,683)
(4,412)	(1,132)	11,283	(336)	10,947
-	-	-	(3,152)	(3,152)
-	-	217	(21)	196
-	-	(419)	-	(419)
(3,633)	(2,319)	170,473	59,649	230,122
-	-	17,683	5,593	23,276
945	238	1,482	(2,999)	(1,517)
945	238	19,165	2,594	21,759
-	-	(7,350)	(3,351)	(10,701)
-	-	159	57	216
-	-	-	1,133	1,133
-	-	-	250	250
-	-	(923)	-	(923)
(2,688)	(2,081)	181,524	60,332	241,856
-	-	21,140	6,035	27,175
17,241	(1,108)	18,190	9,463	27,653
17,241	(1,108)	39,330	15,498	54,828
-	-	(8,355)	(3,690)	(12,045)
-	-	(74)	9	(65)
-	-	-	(485)	(485)
-	-	-	1,710	1,710
-	-	-	892	892
-	-	(521)	-	(521)
Ps. 14,553	**Ps. (3,189)**	**Ps. 211,904**	**Ps. 74,266**	**Ps. 286,170**

Consolidated Statements of Cash Flows

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

For the years ended December 31, 2016, 2015 and 2014. Amounts expressed in millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.)		2016 (*)		2016		2015		2014
Cash flows from operating activities:								
Income before income taxes	$	1,701	Ps.	35,063	Ps.	31,208	Ps.	28,883
Adjustments for:								
Non-cash operating expenses		199		4,111		2,873		209
Depreciation		586		12,076		9,761		9,029
Amortization		79		1,633		1,064		985
(Gain) loss on sale of long-lived assets		(8)		(170)		(249)		7
Loss (gain) on sale of shares		-		8		(14)		-
Disposal of long-lived assets		12		238		416		153
Impairment of long-lived assets		-		-		134		145
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes		(316)		(6,507)		(6,045)		(5,139)
Interest income		(63)		(1,299)		(1,024)		(862)
Interest expense		468		9,646		7,777		6,701
Foreign exchange (gain) loss, net		(55)		(1,131)		1,193		903
Monetary position (gain) loss, net		(117)		(2,411)		36		319
Market value (gain) on financial instruments		(9)		(186)		(364)		(73)
Cash flow from operating activities before changes in operating accounts		2,477		51,071		46,766		41,260
Accounts receivable and other current assets		(92)		(1,889)		(4,379)		(4,962)
Other current financial assets		(68)		(1,395)		318		1,736
Inventories		(239)		(4,936)		(4,330)		(1,122)
Derivative financial instruments		6		130		441		245
Suppliers and other accounts payable		744		15,337		6,799		8,048
Other long-term liabilities		47		968		822		(2,308)
Other current financial liabilities		128		2,642		(570)		793
Employee benefits paid		(23)		(476)		(382)		(416)
Cash generated from operations		2,980		61,452		45,485		43,274
Income taxes paid		(549)		(11,321)		(8,743)		(5,910)
Net cash generated by operating activities		2,431		50,131		36,742		37,364
Cash flows from investing activities:								
Acquisition of Grupo Socofar, net of cash acquired (see Note 4)		-		-		(6,890)		-
Partial payment of Vonpar, net of cash acquired (see Note 4)		(640)		(13,198)		-		-
Other acquisitions, net of cash acquired (see Note 4)		(244)		(5,032)		(5,821)		-
Other investments in associates and joint ventures		(106)		(2,189)		(291)		90
Purchase of investments		(6)		(118)		-		(607)
Proceeds from investments		1		20		126		589
Interest received		63		1,299		1,024		863
Derivative financial instruments		(11)		(220)		232		(25)
Dividends received from associates and joint ventures		159		3,276		2,394		1,801
Property, plant and equipment acquisitions		(926)		(19,083)		(17,485)		(16,985)
Proceeds from the sale of property, plant and equipment		28		574		630		209
Acquisition of intangible assets		(112)		(2,309)		(971)		(706)
Investment in other assets		(83)		(1,709)		(1,502)		(796)
Collections of other assets		-		2		223		-
Investment in other financial assets		(1)		(23)		(28)		(41)
Collection in other financial assets		3		65		-		-
Net cash used in investing activities		(1,875)		(38,645)		(28,359)		(15,608)
Cash flows from financing activities:								
Proceeds from borrowings		1,292		26,629		8,422		5,354
Payments of bank loans		(265)		(5,458)		(15,520)		(5,721)
Interest paid		(265)		(5,470)		(4,563)		(3,984)
Derivative financial instruments		(168)		(3,471)		8,345		(2,267)
Dividends paid		(584)		(12,045)		(10,701)		(3,152)
Contributions from non-controlling interest		43		892		250		-
Other financing activities		11		220		26		482
Net cash generated (used in) by financing activities		64		1,297		(13,741)		(9,288)
Increase (decrease) in cash and cash equivalents		620		12,783		(5,358)		12,468
Initial balance of cash and cash equivalents		1,426		29,396		35,497		27,259
Effects of exchange rate changes and inflation effects on cash and cash equivalents held in foreign currencies		71		1,458		(743)		(4,230)
Ending balance of cash and cash equivalents	$	2,117	Ps.	43,637	Ps.	29,396	Ps.	35,497

(*) Convenience translation to U.S. dollars ($) – see Note 2.2.3
The accompanying notes are an integral part of these consolidated statements of cash flow.

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

For the years ended December 31, 2016, 2015 and 2014.
Amounts expressed in millions of U.S. dollars ($)
and in millions of Mexican pesos (Ps.)

Note 1. Activities of the Company

Fomento Económico Mexicano, S.A.B. de C.V. ("FEMSA") is a Mexican holding company. The principal activities of FEMSA and its subsidiaries (the "Company"), as a business unit, are carried out by operating subsidiaries and companies under direct and indirect holding company subsidiaries of FEMSA.

The following is a description of the Company´s activities as of the date of the issuance of these consolidated financial statements, together with the ownership interest in each subholding company or business unit:

Subholding Company		% Ownership December 31, 2016	% Ownership December 31, 2015	Activities
Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries ("Coca-Cola FEMSA")		**47.9%** [1] **(63.0% of the voting shares)**	47.9% [1] (63.0% of the voting shares)	Production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil, Argentina and Philippines (see Note 10 and 28). At December 31, 2016, The Coca-Cola Company (TCCC) indirectly owns 28.1% of Coca-Cola FEMSA's capital stock. In addition, shares representing 24.0% of Coca-Cola FEMSA's capital stock are traded on the Bolsa Mexicana de Valores (Mexican Stock Exchange "BMV") and on the New York Stock Exchange, Inc (NYSE) in the form of American Depositary Shares ("ADS").
FEMSA Comercio, S.A. de C.V. and subsidiaries ("FEMSA Comercio")	Retail Division	**100%**	100%	Small-box retail chain format operations in Mexico, Colombia and the United States, mainly under the trade name "OXXO" and "Big John" in Chile.
	Fuel Division	**100%**	100%	Retail service stations for fuels, motor oils, lubricants and car care products under the trade name "OXXO GAS" with operations in Mexico.
	Health Division [3]	**Various** [2]	Various [2]	Drugstores operations in Chile and Colombia, mainly under the trademark "Cruz Verde" and Mexico under different brands such as YZA, La Moderna and Farmacon.
CB Equity, LLP ("CB Equity")		**100%**	100%	This Company holds Heineken N.V. and Heineken Holding N.V. shares, which represents in the aggregate a 20% economic interest in both entities ("Heineken").
Other companies		**100%**	100%	Companies engaged in the production and distribution of coolers, commercial refrigeration equipment, plastic cases, food processing, preservation and weighing equipment; as well as logistic transportation and maintenance services to FEMSA's subsidiaries and to third parties.

(1) The Company controls Coca-Cola FEMSA's relevant activities.

(2) The former shareholders of Farmacias YZA hold a 25% stake in Cadena Comercial de Farmacias, S.A.P.I. de C.V., a subsidiary of FEMSA Comercio that holds all pharmacy business in Mexico (which we refer to as CCF). In addition, FEMSA Comercio through one of its subsidiaries, Cadena Comercial de Farmacias Sudamerica, S.P.A., holds a 60% stake in Grupo Socofar, see Note 4.1.2.

(3) As of 2016, FEMSA Comercio – Health Division has been considered as a separate reportable segment, see Note 26.

Note 2. Basis of Preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company's consolidated financial statements and notes were authorized for issuance by the Company's Chief Executive Officer Carlos Salazar Lomelín and Chief Financial and Corporate Officer Eduardo Padilla Silva on February 23, 2017. These consolidated financial statements and notes were then approved by the Company's Board of Directors on February 24, 2017 and subsequent events have been considered through that date (see Note 28). These consolidated financial statements and their accompanying notes were then approved by the Company's shareholders meeting in March 16, 2017.

2.2 Basis of measurement and presentation

The consolidated financial statements have been prepared on the historical cost basis, except for the following:

- Available-for-sale investments.
- Derivative financial instruments.
- Long-term notes payable on which fair value hedge accounting is applied.
- Trust assets of post-employment and other long-term employee benefit plans.

The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values atrtributable to the risks that are being hedged in effective hedge relationship.

The financial statements of subsidiaries whose functional currency is the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the end of the reporting period.

2.2.1 Presentation of consolidated income statement

The Company classifies its costs and expenses by function in the consolidated income statement, in order to conform to the industry practices where the Company operates.

2.2.2 Presentation of consolidated statements of cash flows

The Company's consolidated statement of cash flows is presented using the indirect method.

2.2.3 Convenience translation to U.S. dollars ($)

The consolidated financial statements are stated in millions of Mexican pesos ("Ps.") and rounded to the nearest million unless stated otherwise. However, solely for the convenience of the readers, the consolidated statement of financial position as of December 31, 2016, the consolidated income statement, the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended December 31, 2016 were converted into U.S. dollars at the exchange rate of 20.6170 Mexican pesos per U.S. dollar as published by the Federal Reserve Bank of New York as of December 30, 2016. This arithmetic conversion should not be construed as representation that the amounts expressed in Mexican pesos may be converted into U.S. dollars at that or any other exchange rate. As explained in Note 2.1 above, as of February 24, 2017 (the issuance date of these financial statements) such exchange rate was Ps. 19.9127 per U.S. dollar, a revaluation of 4% since December 31, 2016.

2.3 Critical accounting judgments and estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.3.1 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. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

2.3.1.1 Impairment of indefinite lived intangible assets, goodwill and depreciable long-lived assets

Intangible assets with indefinite lives including goodwill are subject to impairment tests annually or whenever indicators of impairment are present. An impairment exists when the carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. In order to determine whether such assets are impaired, the Company initially calculates an estimation of the value in use of the cash-generating units to which such assets have been allocated. Impairment losses are recognized in current earnings in the period the related impairment is determined.

The Company assesses at each reporting date whether there is an indication that a long-lived asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The key assumptions used to determine the recoverable amount for the Company's CGUs, including a sensitivity analysis, are further explained in Notes 3.16 and 12.

2.3.1.2 Useful lives of property, plant and equipment and intangible assets with defined useful lives

Property, plant and equipment, including returnable bottles as they are expected to provide benefits over a period of more than one year, as well as intangible assets with defined useful lives are depreciated/amortized over their estimated useful lives. The Company bases its estimates on the experience of its technical personnel as well as based on its experience in the industry for similar assets, see Notes 3.12, 3.14, 11 and 12.

2.3.1.3 Employee benefits
The Company regularly evaluates the reasonableness of the assumptions used in its post-employment and other long-term employee benefit computations. Information about such assumptions is described in Note 16.

2.3.1.4 Income taxes
Deferred income tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Company regularly reviews its deferred tax assets for recoverability, and records a deferred tax asset based on its judgment regarding the probability of historical taxable income continuing in the future, projected future taxable income and the expected timing of the reversals of existing temporary differences, see Note 24.

2.3.1.5 Tax, labor and legal contingencies and provisions
The Company is subject to various claims and contingencies related to tax, labor and legal proceedings as described in Note 25. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. Management periodically assesses the probability of loss for such contingencies and accrues a provision and/or discloses the relevant circumstances, as appropriate. If the potential loss of any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a provision for the estimated loss. Management's judgment must be exercised to determine the likelihood of such a loss and an estimate of the amount, due to the subjective nature of the loss.

2.3.1.6 Valuation of financial instruments
The Company is required to measure all derivative financial instruments at fair value.

The fair values of derivative financial instruments are determined considering quoted prices in recognized markets. If such instruments are not traded, fair value is determined by applying techniques based upon technical models supported by sufficient reliable and verifiable data, recognized in the financial sector. The Company bases its forward price curves upon market price quotations. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments, see Note 20.

2.3.1.7 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 Company to, and liabilities assumed by the Company from the former owners of the acquiree, the amount of any non-controlling interest in the acquiree, and the equity interests issued by the Company in exchange for control of the acquiree.

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

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

- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2, Share-based Payment at the acquisition date, see Note 3.24; and

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

- Indemnifiable assets are recognized at the acquisition date on the same basis as the indemnifiable liability subject to any contractual limitations.

For each acquisition, management's judgment must be exercised to determine the fair value of the assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, applying estimates or judgments in techniques used, especially in forecasting CGU's cash flows, in the computation of WACC and estimation of inflation during the identification of intangible assets with indefinite live, mainly, goodwill and trademark rights.

2.3.2 Judgements
In the process of applying the Company's accounting policies, management has made the following judgements which have the most significant effects on the amounts recognized in the consolidated financial statements.

2.3.2.1 Investments in associates
If the Company holds, directly or indirectly, 20 per cent or more of the voting power of the investee, it is presumed that it has significant influence, unless it can be clearly demonstrated that this is not the case. If the Company holds, directly or indirectly, less than 20 per cent of the voting power of the investee, it is presumed that the Company does not have significant influence, unless such influence can be clearly demonstrated. Decisions regarding the propriety of utilizing the equity method of accounting for a less than 20 per cent-owned corporate investee requires a careful evaluation of voting rights and their impact on the Company's ability to exercise significant influence. Management considers the existence of the following circumstances which may indicate that the Company is in a position to exercise significant influence over a less than 20 per cent-owned corporate investee:

- Representation on the board of directors or equivalent governing body of the investee;

- Participation in policy-making processes, including participation in decisions about dividends or other distributions;

- Material transactions between the Company and the investee;

- Interchange of managerial personnel; or

- Provision of essential technical information.

Management also considers the existence and effect of potential voting rights that are currently exercisable or currently convertible when assessing whether the Company has significant influence.

In addition, the Company evaluates certain indicators that provide evidence of significant influence, such as:

- Whether the extent of the Company's ownership is significant relative to other shareholders (i.e., a lack of concentration of other shareholders);

- Whether the Company's significant shareholders, fellow subsidiaries, or officers hold additional investment in the investee; and

- Whether the Company is a part of significant investee committees, such as the executive committee or the finance committee.

2.3.2.2 Joint arrangements

An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. When the Company is a party to an arrangement it shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively; joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively. Management needs to apply judgment when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. When assessing joint control, management considers the following facts and circumstances such as:

a) Whether all the parties or a group of the parties, control the arrangement, considering definition of joint control, as described in Note 3.11.2; and

b) Whether decisions about the relevant activities require the unanimous consent of all the parties, or of a group of the parties.

As mentioned in Note 10, Coca-Cola FEMSA accounts for its 51% investment in Coca-Cola FEMSA Philippines, Inc. (CCFPI) as a joint venture. This is based on the facts that Coca-Cola FEMSA and TCCC: (i) make all operating decisions jointly during the initial four-year period; and (ii) potential voting rights to acquire the remaining 49% of CCFPI are not probable to be executed in the foreseeable future due to the fact the call option was "out of the money" as of December 31, 2016 and 2015.

2.3.2.3 Venezuela exchange rates and consolidation

As is further explained in Note 3.3 below, the exchange rate used to account for foreign currency denominated monetary items arising in Venezuela, and also the exchange rate used to translate the financial statements of the Company's Venezuelan subsidiary for group reporting purposes are both key sources of estimation uncertainty in preparing the accompanying consolidated financial statements.

As is also explained in Note 3.3 below, the Company believes that it currently controls its subsidiary operations in Venezuela but recognizes the challenging economic and political environment in Venezuela. Should the Company in the future conclude that it no longer controls such operations, its consolidated financial statements would change as further explained below.

2.4 Aplication of recently issued accounting standards

The Company has applied the following amendments to IFRS during 2016:

IAS 19 *Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively. For the Company´s pension plan there is no deep market for high-quality corporate bonds in mexican pesos, therefore, the Company continues to use government bond rates (see Note 16.1).

Note 3. Significant Accounting Policies

3.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Company controls an investee if and only if the Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangements with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Company's voting rights and potential voting rights.

The Company re-assesses 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. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements of income and comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Company 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 Company's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary.
- Derecognizes the carrying amount of any non-controlling interests.
- Derecognizes the cumulative translation differences recorded in equity.
- Recognizes the fair value of the consideration received.
- Recognizes the fair value of any investment retained.
- Recognizes any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities.

3.1.1 Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are measured at carrying amount and reflected in shareholders' equity as part of additional paid-in capital.

3.2 Business combinations

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date on which control is transferred to the Company. In assessing control, the Company takes into consideration substantive potential voting rights. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Company elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

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

Costs, other than those associated with the issuance of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, if after reassessment, subsequent changes to the fair value of the contingent considerations are recognized in consolidated net income.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items in which the accounting is incomplete, and discloses that its allocation is preliminary in nature. Those provisional amounts are adjusted retrospectively during the measurement period (not greater than 12 months from the acquisition date), 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.

3.3 Foreign currencies, consolidation of foreign subsidiaries and accounting for investments in associates and joint ventures

In preparing the financial statements of each individual subsidiary and accounting for investments in associates and joint ventures, transactions in currencies other than the individual entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not remeasured.

Exchange differences on monetary items are recognized in consolidated net income in the period in which they arise except for:

- The variations in the net investment in foreign subsidiaries generated by exchange rate fluctuation which are included in other comprehensive income, which is recorded in equity as part of cumulative translation adjustment within the cumulative other comprehensive income.
- Intercompany financing balances with foreign subsidiaries are considered as long-term investments when there is no plan to pay such financing in the foreseeable future. Monetary position and exchange rate fluctuation regarding this financing is recorded in the exchange differences on translation of foreign operations within the cumulative other comprehensive income (loss) item, which is recorded in equity.
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

Foreign exchange differences on monetary items are recognized in profit or loss. Their classification in the income statement depends on their nature. Differences arising from fluctuations related to operating activities are presented in the "other expenses" line (see Note 19) while fluctuations related to non-operating activities such as financing activities are presented as part of "foreign exchange gain (loss)" line in the income statement.

For incorporation into the Company's consolidated financial statements, each foreign subsidiary, associates or joint venture's individual financial statements are translated into Mexican pesos, as follows:

- For hyperinflationary economic environments, the inflation effects of the origin country are recognized pursuant IAS 29 Financial Reporting in Hyperinflationary Economies, and subsequently translated into Mexican pesos using the year-end exchange rate for the consolidated statements of financial position and consolidated income statement and comprehensive income; and
- For non-hyperinflationary economic environments, assets and liabilities are translated into Mexican pesos using the year-end exchange rate, equity is translated into Mexican pesos using the historical exchange rate, and the income statement and comprehensive income is translated using the exchange rate at the date of each transaction. The Company uses the average exchange rate of each month if the exchange rate does not fluctuate significantly.

		Exchange Rates of Local Currencies Translated to Mexican Pesos				
		Average Exchange Rate for			Exchange Rate as of	
Country or Zone	Functional / Recording Currency	2016	2015	2014	December 31, 2016	December 31, 2015
Guatemala	Quetzal	**2.46**	2.07	1.72	**2.75**	2.25
Costa Rica	Colon	**0.03**	0.03	0.02	**0.04**	0.03
Panama	U.S. dollar	**18.66**	15.85	13.30	**20.66**	17.21
Colombia	Colombian peso	**0.01**	0.01	0.01	**0.01**	0.01
Nicaragua	Cordoba	**0.65**	0.58	0.51	**0.70**	0.62
Argentina	Argentine peso	**1.26**	1.71	1.64	**1.30**	1.32
Venezuela a)	Bolivar	**a)**	a)	a)	**a)**	a)
Brazil	Reais	**5.39**	4.81	5.66	**6.34**	4.41
Chile	Chilean peso	**0.03**	0.02	0.02	**0.03**	0.02
Euro Zone	Euro (€)	**20.66**	17.60	17.66	**21.77**	18.94
Peru	Nuevo Sol	**5.53**	4.99	4.68	**6.15**	5.05
Ecuador	Peso	**18.66**	15.85	13.30	**20.66**	17.21
Philippines	Philippine peso	**0.39**	0.35	0.30	**0.41**	0.36

a) Venezuela

The Company has operated under exchange controls in Venezuela since 2003, which limit its ability to remit dividends abroad or make payments other than in local currency and which may increase the real price paid for raw materials and services purchased in local currency. Cash balances of the Company's Venezuelan subsidiary which are not available for use at the time the Company prepares its consolidated financial statements are disclosed in Note 5.

The exchange rate used by the Company for its Venezuelan operations depends on the type of the transaction as explained below.

As of December 31, 2016 and 2015, the companies in Venezuela were able to convert bolivars to U.S. dollars at one of the following legal exchange rates:

i) The official exchange rate. Used for transactions involving what the Venezuelan government considers to be "essential goods and services". Until March 10, 2016, most of the Company's concentrate purchases from The Coca-Cola Company and other strategic suppliers qualified for such treatment. As of December 31, 2014 and 2015 the official exchange rate was 6.30 bolivars per U.S. dollar.

ii) SICAD. Used for certain transactions, including payment of services and payments related to foreign investments in Venezuela, determined by the state-run system known as *Sistema Complementario de Administración de Divisas* or SICAD exchange rate. The SICAD determined this alternative exchange rate based on limited periodic sales of U.S. dollars through auctions. As of December 31, 2015 the SICAD exchange rate was 13.50 bolivars per U.S. dollar (Ps. 1.27 per bolivar). During part of 2015, SICAD was used for certain types of transactions including purchases from other strategic suppliers that did not qualify by the official exchange rate.

iii) SICAD II. The Venezuelan government enacted a new law in 2014 that authorized an additional method of exchanging Venezuelan bolivars to U.S. dollars. During part of 2015 SICAD-II was used for certain types of transactions not covered by the official exchange rate or the SICAD exchange rate. In February 2015, this exchange rate was eliminated.

iv) SIMADI. In February 2015, the Venezuelan government enacted a new market-based exchange rate determined by the system known as the *Sistema Marginal de Divisas*, or SIMADI. The SIMADI determined the exchange rates based on supply and demand of U.S. dollars. The SIMADI exchange rate as of December 31, 2015 was 198.70 bolivars per U.S. dollar (Ps. 0.09 per bolivar). As of December 31 2015, the Company used SIMADI to translated its results of their Venezuela subsidiary.

v) DIPRO and DICOM. In March 10, 2016, the Venezuelan government announced the replacement of (a) the SIMADI exchange rate with a new market based exchange rate known as Divisas Complementarias, or "DICOM", and (b) the official exchange rate with a preferential exchange rate denominated Divisa Protegida, or "DIPRO". The DIPRO exchange rate is determined by the Venezuelan government and may be used to settle imports of a list of goods and raw materials. The DICOM exchange rate is determined based on supply and demand of U.S. dollars. As of December 31, 2016 the DIPRO and DICOM exchange rates were 10 bolivars and 673.76 bolivars per U.S. dollar, respectively. As of December 31, 2016 the Company used the DIPRO exchange rates to remeasure some of their liabilities in U.S. dollar that were originally recorded at the official exchange rate. The DICOM exchange rate was used in the remeasurement of certain liabilities and in the translation of the financial statements of their Venezuelan operations.

The Company's recognition of its Venezuelan operations involves a two-step accounting process in order to translate into bolivars all transactions in a different currency than bolivars and then to translate the bolivar amounts to Mexican Pesos.

Step-one.- Transactions are first recorded in the stand-alone accounts of the Venezuelan subsidiary in its functional currency, which are bolivars. Any non-bolivar denominated monetary assets or liabilities are translated into bolivars at each balance sheet date using the exchange rate at which the Company expects them to be settled, with the corresponding effect of such translation being recorded in the income statement.

As of December 31, 2016 Coca-Cola FEMSA had U.S. $429.8 million in monetary liabilities recorded using DIPRO exchange rate, and U.S. $189.8 recorded at DICOM.

As of December 31, 2015 Coca-Cola FEMSA had U.S. $418.5 million in monetary liabilities recorded using the official exchange rate, and U.S. $138.7 recorded at SICAD at the moment this exchange rate was determined by the government, of which U.S. $44.9 million were recorded at 12.00 bolivars, U.S. $35.9 were recorded at 12.80 bolivars and U.S. $57.9 at 13.50 bolivars.

Coca-Cola FEMSA believes that these account payables for imports of essential goods should continue to qualify as transactions that may be settled using the DICOM rate, as they were recorded, but also recognizes the current illiquidity of the U.S. dollar market in Venezuela. If there is a change in the official exchange rate used in the future, or should Coca-Cola FEMSA determine these amounts no longer qualify, the Coca-Cola FEMSA may need to recognize a portion of the impact of this change in the income statement.

Step-two.- In order to integrate the results of the Venezuelan operations into the consolidated figures of Coca-Cola FEMSA, such Venezuelan results are translated from Venezuelan bolivars into Mexican pesos. During 2016 and 2015, the Coca-Cola FEMSA used DICOM (673.76 bolivars per USD) and SIMADI exchange rate (198.70 bolivars per USD) for accounting purposes respectively, based on the expectations that these would have been the exchange rate to what dividends will be settled.

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in other comprehensive income in respect of that operation attributable to the owners of the Company are recognized in the consolidated income statement. The Company continues to monitor all of its foreign operations, but most notably its Venezuela operations for the reasons explained herein. Over the past few years, the Coca-Cola FEMSA has recognized significant amounts of exchange difference in accumulated other comprehensive loss (approximating Ps. 20,230 million) related to such Venezuela operations. To the extent that economic and or operational conditions were to worsen in the future resulting in a conclusion that the Coca-Cola FEMSA no longer controls such operations, such would result in both deconsolidation and an income statement charge for the accumulated exchange loss. There can be no assurances that such might not happen in the future.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Coca-Cola FEMSA losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint ventures that do not result in the Company losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Foreign exchange differences arising are recognized in equity as part of the cumulative translation adjustment.

The translation of assets and liabilities denominated in foreign currencies into Mexican pesos is for consolidation purposes and does not indicate that the Company could realize or settle the reported value of those assets and liabilities in Mexican pesos. Additionally, this does not indicate that the Company could return or distribute the reported Mexican peso value in equity to its shareholders.

3.4 Recognition of the effects of inflation in countries with hyperinflationary economic environments

The Company recognizes the effects of inflation on the financial information of its Venezuelan subsidiary that operates in hyperinflationary economic environments (when cumulative inflation of the three preceding years is approaching, or exceeds, 100% or more in addition to other qualitative factors), which consists of:

- Using inflation factors to restate non-monetary assets, such as inventories, property, plant and equipment, intangible assets, including related costs and expenses when such assets are consumed or depreciated;
- Applying the appropriate inflation factors to restate capital stock, additional paid-in capital, net income, retained earnings and items of other comprehensive income by the necessary amount to maintain the purchasing power equivalent in the currency of Venezuela on the dates such capital was contributed or income was generated up to the date those consolidated financial statements are presented; and
- Including the monetary position gain or loss in consolidated net income.

The Company restates the financial information of subsidiaries that operate in hyperinflationary economic environment using the consumer price index of each country (CPI). As of December 31, 2016, 2015, and 2014, the operations of the Company are classified as follows:

Country	Cumulative Inflation 2014- 2016	Type of Economy	Cumulative Inflation 2013- 2015	Type of Economy	Cumulative Inflation 2012- 2014	Type of Economy
Mexico	**9.9%**	**Non-hyperinflationary**	10.5%	Non-hyperinflationary	12.4%	Non-hyperinflationary
Guatemala	**10.6%**	**Non-hyperinflationary**	10.8%	Non-hyperinflationary	11.5%	Non-hyperinflationary
Costa Rica	**5.1%**	**Non-hyperinflationary**	8.1%	Non-hyperinflationary	14.6%	Non-hyperinflationary
Panama	**2.8%**	**Non-hyperinflationary**	5.1%	Non-hyperinflationary	9.7%	Non-hyperinflationary
Colombia	**17.0%**	**Non-hyperinflationary**	12.8%	Non-hyperinflationary	8.1%	Non-hyperinflationary
Nicaragua	**13.1%**	**Non-hyperinflationary**	15.8%	Non-hyperinflationary	21.9%	Non-hyperinflationary
Argentina a)	**99.7%**	**Non-hyperinflationary**	59.2%	Non-hyperinflationary	52.6%	Non-hyperinflationary
Venezuela	**2263.0%**	**Hyperinflationary**	562.9%	Hyperinflationary	210.2%	Hyperinflationary
Brazil	**25.2%**	**Non-hyperinflationary**	24.7%	Non-hyperinflationary	19.0%	Non-hyperinflationary
Philippines (equity method investment)	**5.7%**	**Non-hyperinflationary**	8.3%	Non-hyperinflationary	9.9%	Non-hyperinflationary
Euro Zone	**1.2%**	**Non-hyperinflationary**	0.9%	Non-hyperinflationary	2.9%	Non-hyperinflationary
Chile	**12.2%**	**Non-hyperinflationary**	12.5%	Non-hyperinflationary	9.4%	Non-hyperinflationary
Peru	**11.2%**	**Non-hyperinflationary**	10.8%	Non-hyperinflationary	9.0%	Non-hyperinflationary
Ecuador	**8.4%**	**Non-hyperinflationary**	10.0%	Non-hyperinflationary	10.9%	Non-hyperinflationary

a) As of December 2016 there are multiple inflation indices (including combination of indices in the case of CPI or certain months without official available information in the case of National Wholesale Price Index (WPI), as follows:

i) CPI for the City and Greater Buenos Aires Area (New CPI-CGBA), for which the IMF noted improvements in quality, this new consumer price index will only be provided for periods after April 2016 and does not provide national coverage. The cumulative CPI inflation (using the indices of the City of Buenos Aires for November 2015 to April 2016) for the three years was 104.6% as of November 2016.

ii) "Coeficiente de Estabilización de Referencia" (CER or Reference Stabilization Ratio) to calculate the three-year cumulative inflation rate in Argentina, the CER is used by the government of Argentina to adjust the rate they pay on certain adjustable rate bonds they issue. At November 30, 2016, the three-year cumulative inflation rate based on CER data is estimated to be approximately 92%.

iii) WPI with a cumulative inflation for three years of 92.2% at November 2016 but not including information for November and December 2015 since it was not published by the National Bureau of Statistics of Argentina (INDEC). The WPI has historically been viewed as the most relevant inflation measure for companies by practitioners in Argentina.

As a result of the existence of multiple inflation indices, the Company believes it necessitates an increased level of judgment in determining whether the economy of Argentina should be considered highly inflationary.

The Company believes that general market sentiment is that on the basis of the quantitative and qualitative indicators in IAS 29, the economy of Argentina should not be considered as hyperinflationary as of December 31, 2016. However, it is possible that certain market participants and regulators could have varying views on this topic both during 2016 and as Argentina's economy continues to evolve in 2017. The Company will continue to carefully monitor the situation and make appropriate changes if and when necessary.

3.5 Cash and cash equivalents and restricted cash

Cash is measured at nominal value and consists of non-interest bearing bank deposits. Cash equivalents consist principally of short-term bank deposits and fixed rate investments, both with maturities of three months or less at the acquisition date and are recorded at acquisition cost plus interest income not yet received, which is similar to market prices.

The Company also maintains restricted cash held as collateral to meet certain contractual obligations (see Note 9.2). Restricted cash is presented within other current financial assets given that the restrictions are short-term in nature.

3.6 Financial assets

Financial assets are classified into the following specified categories: "fair value through profit or loss (FVTPL) ," "held-to-maturity investments," "available-for-sale" and "loans and receivables" or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification depends on the nature and purpose of holding the financial assets and is determined at the time of initial recognition.

When a financial asset is recognized initially, the Company measures it at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company's financial assets include cash, cash equivalents and restricted cash, investments with maturities of greater than three months, loans and receivables, derivative financial instruments and other financial assets.

3.6.1 Effective interest rate method (EIR)

The effective interest rate method is a method of calculating the amortized cost of loans and receivables and other financial assets (designated as held to-maturity) and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on 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 asset, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3.6.2 Investments

Investments consist of debt securities and bank deposits with maturities of more than three months at the acquisition date. Management determines the appropriate classification of investments at the time of purchase and assesses such designation as of each reporting date (see Note 6).

3.6.2.1 Held-to maturity investments are those that the Company has the positive intent and ability to hold to maturity, and after initial measurement, such financial assets are subsequently measured at amortized cost, which includes any cost of purchase and premium or discount related to the investment. Subsequently, the premium/discount is amortized over the life of the investment based on its outstanding balance utilizing the effective interest method less any impairment. Interest and dividends on investments classified as held-to maturity are included in interest income.

3.6.3 Loans and receivables

Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. Loans and receivables with a stated term (including trade and other receivables) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. For the years ended December 31, 2016, 2015 and 2014 the interest income on loans and receivables recognized in the interest income line item within the consolidated income statements is Ps. 41, Ps. 53 and Ps. 47, respectively.

3.6.4 Other financial assets

Other financial assets include long term accounts receivable, derivative financial instruments and recoverable contingencies acquired from business combinations. Long term accounts receivable with a stated term are measured at amortized cost using the effective interest method, less any impairment.

3.6.5 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial assets that can be reliably estimated.

Evidence of impairment may include indicators as follows:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquent in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

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

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

3.6.6 Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the financial asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3.6.7 Offsetting of financial instruments

Financial assets are required to be offset against financial liabilities and the net amount reported in the consolidated statement of financial position if, and only when the Company:

- Currently has an enforceable legal right to offset the recognized amounts; and
- Intends to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

3.7 Derivative financial instruments

The Company is exposed to different risks related to cash flows, liquidity, market and third party credit. As a result, the Company contracts different derivative financial instruments in order to reduce its exposure to the risk of exchange rate fluctuations between the Mexican peso and other currencies, and interest rate fluctuations associated with its borrowings denominated in foreign currencies and the exposure to the risk of fluctuation in the costs of certain raw materials.

The Company values and records all derivative financial instruments and hedging activities, in the consolidated statement of financial position as either an asset or liability measured at fair value, considering quoted prices in recognized markets. If such instruments are not traded in a formal market, fair value is determined by applying techniques based upon technical models supported by sufficient, reliable and verifiable market data. Changes in the fair value of derivative financial instruments are recorded each year in current earnings otherwise as a component of cumulative other comprehensive income based on the item being hedged and the effectiveness of the hedge.

3.7.1 Hedge accounting

The Company designates certain hedging instruments, which include derivatives to cover foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

3.7.1.1 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading valuation of the effective portion of derivative financial instruments. The gain or loss relating to the ineffective portion is recognized immediately in consolidated net income, and is included in the market value (gain) loss on financial instruments line item within the consolidated income statements.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to consolidated net income in the periods when the hedged item is recognized in consolidated net income, in the same line of the consolidated income statement as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in cumulative other comprehensive income in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in consolidated net income. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in consolidated net income.

3.7.1.2 Fair value hedges

The change in the fair value of a hedging derivative is recognized in the consolidated income statement as foreign exchange gain or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the consolidated income statement as foreign exchange gain or loss.

For fair value hedges relating to items carried at amortized cost, , any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the consolidated net income.

3.7.2 Hedge of net investment in a foreign business

The Company applies hedge accounting to foreign currency differences arising between the functional currency of its investments abroad and the functional currency of the holding (Mexican peso), regardless of whether the net investment is held directly or through a sub-holding.

Differences in foreign currency that arise in the conversion of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income in the exchange differences on the translation of foreign operations and associates caption in other comprehensive income, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized as market value gain or loss on financial instruments within the consolidated income statements. When part of the hedge of a net investment is eliminated, the corresponding accumulated foreign currency translation effect is recognized as part of the gain or loss on disposal within the consolidated income statement.

3.8 Fair value measurement

The Company measures financial instruments, such as derivatives, and non-financial assets, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Notes 13 and 18.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 — Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 — Are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company determines the policies and procedures for both recurring fair value measurements, such as those described in Note 20 and unquoted liabilities such as debt described in Note 18.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3.9 Inventories and cost of goods sold

Inventories are measured at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Inventories represent the acquisition or production cost which is incurred when purchasing or producing a product. The operating segments of the Company use inventory costing methodologies to value their inventories, such as the weighted average cost method in Coca-Cola FEMSA, retail method (a method to estimate the average cost) in FEMSA Comercio – Retail Division and FEMSA Comercio – Health Division; and acquisition method in FEMSA Comercio – Fuel Division, except for the distribution centers which are valued with average cost method.

Cost of goods sold is based on the weighted average cost of the inventories at the time of sale. Cost of goods sold includes expenses related to the purchase of raw materials used in the production process, as well as labor costs (wages and other benefits), depreciation of production facilities, equipment and other costs, including fuel, electricity, equipment maintenanceand inspection; expenses related to the purchase of goods and services used in the sale process of the Company´s products and expenses related to the purchase of gasoline, diesel and all engine lubricants used in the sale process of the Company.

3.10 Other current assets

Other current assets, which will be realized within a period of less than one year from the reporting date, are comprised of prepaid assets and product promotion agreements with customers.

Prepaid assets principally consist of advances to suppliers of raw materials, advertising, promotional, leasing and insurance costs, and are recognized as other current assets at the time of the cash disbursement. Prepaid assets are carried to the appropriate caption in the income statement when inherent benefits and risks have already been transferred to the Company or services have been received, respectively.

The Company has prepaid advertising costs which consist of television and radio advertising airtime in advance. These expenses are generally amortized over the period based on the transmission of the television and radio spots. The related production costs are recognized in consolidated net income as incurred.

Coca-Cola FEMSA has agreements with customers for the right to sell and promote Coca-Cola FEMSA's products over a certain period. The majority of these agreements have terms of more than one year, and the related costs are amortized using the straight-line method over the term of the contract, with amortization presented as a reduction of net sales. During the years ended December 31, 2016, 2015 and 2014, such amortization aggregated to Ps. 582, Ps. 317 and Ps. 338, respectively.

3.11 Investments in associates and joint arrangements

3.11.1 Investments in associates

Associates are those entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value.

Investments in associates are accounted for using the equity method and initially recognized at cost, which comprises the investment's purchase price and any directly attributable expenditure necessary to acquire it. The carrying amount of the investment is adjusted to recognize changes in the Company's shareholding of the associate since the acquisition date. The financial statements of the associates are prepared for the same reporting period as the Company.

The consolidated financial statements include the Company's share of the consolidated net income and other comprehensive income, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

Profits and losses resulting from 'upstream' and 'downstream' transactions between the Company (including its consolidated subsidiaries) and an associate are recognized in the consolidated financial statements only to the extent of unrelated investors' interests in the associate. 'Upstream' transactions are, for example, sales of assets from an associate to the Company. 'Downstream' transactions are, for example, sales of assets from the Company to an associate. The Company's share in the associate's profits and losses resulting from these transactions is eliminated.

When the Company's share of losses exceeds the carrying amount of the associate, including any advances, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has a legal or constructive obligation to pay the associate or has to make payments on behalf of the associate.

Goodwill identified at the acquisition date is presented as part of the investment in shares of the associate in the consolidated statement of financial position. Any goodwill arising on the acquisition of the Company's interest in an associate is measured in accordance with the Company's accounting policy for goodwill arising in a business combination, see Note 3.2.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on its investment in its associate. The Company determines at each reporting date whether there is any objective evidence that the investment in the associates is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and recognizes the amount in the share of the profit or loss of associates and joint ventures accounted for using the equity method in the consolidated income statements.

3.11.2 Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Company classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Company's rights to the assets and obligations for the liabilities of the arrangements.

Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Company recognizes its interest in the joint ventures as an investment and accounts for that investment using the equity method, as described in Note 3.11.1. As of December 31, 2016 and 2015 the Company does not have an interest in joint operations.

Upon loss of joint control over the joint venture, the Company measures and recognizes any retained investment at its fair value.

3.12 Property, plant and equipment

Property, plant and equipment are initially recorded at their cost of acquisition and/or construction, and are presented net of accumulated depreciation and/or accumulated impairment losses, if any. The borrowing costs related to the acquisition or construction of qualifying asset is capitalized as part of the cost of that asset, if material.

Major maintenance costs are capitalized as part of total acquisition cost. Routine maintenance and repair costs are expensed as incurred.

Investments in progress consist of long-lived assets not yet in service, in other words, that are not yet ready for the purpose that they were bought, built or developed. The Company expects to complete those investments during the following 12 months.

Depreciation is computed using the straight-line method over the asset's estimated useful life. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted and depreciated for as separate items (major components) of property, plant and equipment. The Company estimates depreciation rates, considering the estimated useful lives of the assets.

The estimated useful lives of the Company's principal assets are as follows:

	Years
Buildings	15-50
Machinery and equipment	10-20
Distribution equipment	7-15
Refrigeration equipment	5-7
Returnable bottles	1.5-4
Leasehold improvements	The shorter of lease term or 15 years
Information technology equipment	3-5
Other equipment	3-10

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds (if any) and the carrying amount of the asset and is recognized in consolidated net income.

Returnable and non-returnable bottles:

Coca-Cola FEMSA has two types of bottles: returnable and non-returnable.

- Non returnable: Are recorded in consolidated net income at the time of the sale of the product.
- Returnable: Are classified as long-lived assets as a component of property, plant and equipment. Returnable bottles are recorded at acquisition cost and for countries with hyperinflationary economies, restated according to IAS 29, Depreciation of returnable bottles is computed using the straight-line method considering their estimated useful lives.

There are two types of returnable bottles:

- Those that are in Coca-Cola FEMSA's control within its facilities, plants and distribution centers; and
- Those that have been placed in the hands of customers, and still belong to Coca-Cola FEMSA.

Returnable bottles that have been placed in the hands of customers are subject to an agreement with a retailer pursuant to which Coca-Cola FEMSA retains ownership. These bottles are monitored by sales personnel during periodic visits to retailers and Coca-Cola FEMSA has the right to charge any breakage identified to the retailer. Bottles that are not subject to such agreements are expensed when placed in the hands of retailers.

Coca-Cola FEMSA's returnable bottles are depreciated according to their estimated useful lives (3 years for glass bottles and 1.5 years for PET bottles). Deposits received from customers are amortized over the same useful estimated lives of the bottles.

3.13 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Borrowing costs may include:

- Interest expense; and
- Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Interest income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in consolidated net income in the period in which they are incurred.

3.14 Intangible assets

Intangible assets are identifiable non monetary assets without physical substance and represent payments whose benefits will be received in future years. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition (see Note 3.2). Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite, in accordance with the period over which the Company expects to receive the benefits.

Intangible assets with finite useful lives are amortized and mainly consist of:

- Information technology and management system costs incurred during the development stage which are currently in use. Such amounts are capitalized and then amortized using the straight-line method over their expected useful lives, with a range in useful lives from 3 to 10 years. Expenses that do not fulfill the requirements for capitalization are expensed as incurred.
- Long-term alcohol licenses are amortized using the straight-line method over their estimated useful lives, which range between 12 and 15 years, and are presented as part of intangible assets with finite useful lives.

Amortized intangible assets, such as finite lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable through its expected future cash flows.

Intangible assets with an indefinite life are not amortized and are subject to impairment tests on an annual basis as well as whenever certain circumstances indicate that the carrying amount of those intangible assets exceeds their recoverable value.

The Company's intangible assets with an indefinite life mainly consist of rights to produce and distribute Coca-Cola trademark products in the Company's territories. These rights are contained in agreements that are standard contracts that The Coca-Cola Company has with its bottlers. Additionaly, the Company´s intangible assets with an indefinite life consist of FEMSA Comercio – Health Division´s trademark rights which consist of standalone beauty store retail banners, pharmaceutical distribution to third-party clients and the production of generic and bioequivalent pharmaceuticals.

As of December 31, 2016, Coca-Cola FEMSA had nine bottler agreements in Mexico: (i) the agreements for the Valley of Mexico territory, which are up for renewal in August 2017 and June 2023, (ii) the agreement for the Southeast territory, which is up for renewal in June 2023, (iii) three agreements for the Central territory, which are up for renewal in August 2017 (two agreements), and May 2025, (iv) the agreement for the Northeast territory, which is up for renewal in August 2017, and (v) two agreements for the Bajio territory, which are up for renewal in August 2017 and May 2025.

As of December 31, 2016, Coca-Cola FEMSA had nine bottler agreements in Brazil, which are up for renewal in October 2017 (seven agreements) and April 2024 (two agreements); and one bottler agreement in each of Argentina, which is up for renewal in September 2024; Colombia, which is up for renewal in June 2024; Venezuela, which is up for renewal in August 2026; Guatemala, which is up for renewal in March 2025; Costa Rica, which is up for renewal in September 2017; Nicaragua, which is up for renewal in May 2026 and Panama, which is up for renewal in November 2024.

The bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew a specific agreement. In addition, these agreements generally may be terminated in the case of material breach. Termination would prevent Coca-Cola FEMSA from selling Coca-Cola trademark beverages in the affected territory and would have an adverse effect on the Company´s business, financial conditions, results from operations and prospects.

3.15 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3.16 Impairment of long-lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its long-lived 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). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest CGUs for which a reasonable and consistent allocation basis can be identified.

For the purpose of impairment testing, where a reasonable basis of allocation can not be identified, goodwill acquired in a business combination, from the acquisition date, is allocated to each of the group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

For goodwill and other indefinite lived intangible assets, the Company tests for impairment on an annual basis and whenever certain circumstances indicate that the carrying amount of related CGU might exceed its recoverable amount.

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, as discussed in Note 2.3.1.1.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in consolidated net income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognized immediately in consolidated net income. Impairment losses related to goodwill are not reversible.

For the year ended December 31, 2015 and 2014, the Company recognized impairment of Ps. 134 and Ps. 145, respectively (see Note 19).

3.17 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

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

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expenses are recognized immediately in consolidated net income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Leasehold improvements on operating leases are amortized using the straight-line method over the shorter of either the useful life of the assets or the related lease term.

3.18 Financial liabilities and equity instruments

3.18.1 Classification as debt or equity

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

3.18.2 Equity instruments

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

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

3.18.3 Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at FVTPL, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value less, in the case of loans and borrowings, directly attributable transaction costs.

The Company´s financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments, see Note 3.7.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below.

3.18.4 Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statements when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest method. The effective interest method amortization is included in interest expense in the consolidated income statements, see Note 18.

3.18.5 Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated income statements.

3.19 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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 flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from 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.

The Company recognizes a provision for a loss contingency when it is probable (i.e., the probability that the event will occur is greater than the probability that it will not) that certain effects related to past events, would materialize and can be reasonably quantified. These events and their financial impact are also disclosed as loss contingencies in the consolidated financial statements when the risk of loss is deemed to be other than remote. The Company does not recognize an asset for a gain contingency until the gain is realized, see Note 25.

Restructuring provisions are recognized only when the recognition criteria for provisions are fulfilled. The Company has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline. Furthermore, the employees affected must have been notified of the plan's main features.

3.20 Post-employment and other long-term employee benefits

Post-employment and other long-term employee benefits, which are considered to be monetary items, include obligations for pension and retirement plans, seniority premiums and postretirement medical services, are all based on actuarial calculations, using the projected unit credit method.

In Mexico, the economic benefits from employee benefits and retirement pensions are granted to employees with 10 years of service and minimum age of 60. In accordance with Mexican Labor Law, the Company provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one-time payment equivalent to 12 days wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit. For qualifying employees, the Company also provides certain post-employment healthcare benefits such as the medical-surgical services, pharmaceuticals and hospital.

For defined benefit retirement plans and other long-term employee benefits, such as the Company's sponsored pension and retirement plans, seniority premiums and postretirement medical service plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. All remeasurements effects of the Company's defined benefit obligation such as actuarial gains and losses are recognized directly in other comprehensive income ("OCI"). The Company presents service costs within cost of goods sold, administrative and selling expenses in the consolidated income statements. The Company presents net interest cost within interest expense in the consolidated income statements. The projected benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation as of the end of each reporting period. Certain subsidiaries of the Company have established plan assets for the payment of pension benefits, seniority premiums and postretirement medical services through irrevocable trusts of which the employees are named as beneficiaries, which serve to increase the funded status of such plans' related obligations.

Costs related to compensated absences, such as vacations and vacation premiums, are recognized on an accrual basis. Cost for mandatory severance benefits are recorded when the related event occurs.

The Company recognizes a liability and expense for termination benefits at the earlier of the following dates:

a) When it can no longer withdraw the offer of those benefits; or

b) When it recognizes costs for a restructuring that is within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets," and involves the payment of termination benefits.

The Company is demonstrably committed to a termination when, and only when, the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal.

A settlement occurs when an employer enters into a transaction that eliminates all further legal of constructive obligations for part or all of the benefits provided under a defined benefit plan. A curtailment arises from an isolated event such as closing of a plant, discontinuance of an operation or termination or suspension of a plan. Gains or losses on the settlement or curtailment of a defined benefit plan are recognized when the settlement or curtailment occurs.

During 2014, Coca-Cola FEMSA settled its pension plan in Brazil and consequently recognized the corresponding effects of the settlement on the results of the current period, refer to Note 16.

3.21 Revenue recognition

Sales of all of the Company products (including retail and consumer goods, fuel and others) are recognized as revenue upon delivery to the customer, and once all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

All of the above conditions are typically met at the point in time that goods are delivered to the customer at the customers' facilities. Net sales reflect units delivered at list prices reduced by promotional allowances, discounts and the amortization of the agreements with customers to obtain the rights to sell and promote the Company's products.

Rendering of services and other

Revenue arising from logistic transportation, maintenance services and packing of raw materials are recognized in the revenues caption in the consolidated income statement.

The Company recognized these transactions as revenues in accordance with the requirements established in the IAS 18 "Revenue" for delivery of goods and rendering of services, which are:

a) The amount of revenue can be measured reliably;

b) It is probable that the economic benefits associated with the transaction will flow to the entity.

Interest income

Revenue arising from the use by others of entity assets yielding interest is recognized once all the following conditions are satisfied:

- The amount of the revenue can be measured reliably; and
- It is probable that the economic benefits associated with the transaction will flow to the entity.

For all financial instruments measured at amortized cost and interest bearing financial assets classified as held to maturity, interest income is recorded using the effective interest rate ("EIR"), which is the rate that exactly discounts the estimated future cash or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The related interest income is included in the consolidated income statements.

3.22 Administrative and selling expenses

Administrative expenses include labor costs (salaries and other benefits, including employee profit sharing "PTU") of employees not directly involved in the sale or production of the Company's products, as well as professional service fees, the depreciation of office facilities, amortization of capitalized information technology system implementation costs and any other similar costs.

Selling expenses include:

- Distribution: labor costs (salaries and other related benefits), outbound freight costs, warehousing costs of finished products, write off of returnable bottles in the distribution process, depreciation and maintenance of trucks and other distribution facilities and equipment. For the years ended December 31, 2016, 2015 and 2014, these distribution costs amounted to Ps. 20,250, Ps. 20,205 and Ps. 19,236, respectively;
- Sales: labor costs (salaries and other benefits, including PTU) and sales commissions paid to sales personnel; and
- Marketing: promotional expenses and advertising costs.

PTU is paid by the Company's Mexican subsidiaries to its eligible employees. In Mexico, employee profit sharing is computed at the rate of 10% of the individual company taxable income. PTU in Mexico is calculated from the same taxable income for income tax, except for the following: a) neither tax losses from prior years nor the PTU paid during the year are deductible; and b) payments exempt from taxes for the employees are fully deductible in the PTU computation.

3.23 Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are charged to consolidated net income as they are incurred, 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.

3.23.1 Current income taxes

Income taxes are recorded in the results of the year they are incurred.

3.23.2 Deferred income taxes

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 and if any, future benefits from tax loss carry forwards and certain tax credits. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from initial recognition of goodwill (no recognition of deferred tax liabilities) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, except in the case of Brazil, where certain goodwill amounts are at times deductible for tax purposes.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except where the Company 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.

Deferred income taxes are classified as a long-term asset or liability, regardless of when the temporary differences are expected to reverse.

Deferred tax relating to items recognized in the other comprehensive income are recognized in correlation to the underlying transaction in OCI.

Deferred tax assets and liabilities 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

In Mexico, the income tax rate is 30% for 2016, 2015 and 2014, and as result of Mexican Tax Reform for 2014, it will remain at 30% for the following years.

3.24 Share-based payments arrangements

Senior executives of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments. The equity instruments are granted and then held by a trust controlled by the Company until vesting. They are accounted for as equity settled transactions. The award of equity instruments is a fixed monetary value on grant date.

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed and recognized based on the graded vesting method over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in consolidated net income such that the cumulative expense reflects the revised estimate.

3.25 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its shares. Basic EPS is calculated by dividing the net income attributable to controlling interest by the weighted average number of shares outstanding during the period adjusted for the weighted average of own shares purchased in the year. Diluted EPS is determined by adjusting the weighted average number of shares outstanding including the weighted average of own shares purchased in the year for the effects of all potentially dilutive securities, which comprise share rights granted to employees described above.

3.26 Issuance of subsidiary stock

The Company recognizes the issuance of a subsidiary's stock as an equity transaction. The difference between the book value of the shares issued and the amount contributed by the non-controlling interest holder or third party is recorded as additional paid-in capital.

Note 4. Mergers and Acquisitions

4.1 Mergers and acquisitions

The Company has had certain mergers and acquisitions for the years 2016 and 2015; which were recorded using the acquisition method of accounting. The results of the acquired operations have been included in the consolidated financial statements since the date on which the Company obtained control of the business, as disclosed below. Therefore, the consolidated income statements and the consolidated statements of financial position in the years of such acquisitions are not comparable with previous periods. The consolidated statements of cash flows for the years ended December 31, 2016 and 2015 show the cash outflow for the merged and acquired operations net of the cash acquired related to those mergers and acquisitions. For the year ended December 31, 2014, the Company did not have any acquisitions or mergers.

4.1.1 Acquisition of Vonpar

On December 6, 2016, Coca-Cola FEMSA through its Brazilian subsidiary Spal Industria Brasileira de Bebidas, S.A. completed the acquisition of 100% of Vonpar S.A. (herein "Vonpar") for a consideration transfered of Ps. 20,992. Vonpar was a bottler of Coca-Cola trademark products which operated mainly in Rio Grande do Sul and Santa Catarina, Brazil. This acquisition was made to reinforce the Company's leadership position in Brazil.

Of the purchase price of approximately Ps. 20,992 (R$3,508); Spal paid an amount of approximately Ps. 10,370 (R$1,730) in cash on December 6, 2016.

On the same date Spal additionally paid Ps. 4,124 (R$688) in cash, of which in a subsequent and separate transaction the sellers commited to capitalize for an amount of Ps. 4,082 into Coca-Cola FEMSA in exchange for approximately 27.9 million KOF series L shares at an implicit value of Ps. 146.27.

At closing, Spal issued a 3-year promissory note denominated and payable in cash in Brazilian Reals for the remaining balance of Ps. 6,534 (R$1,090). This note will pay an annual interest rate of 0.375% plus or minus the depreciation or appreciation of the Brazilian Real relative to the U.S. Dollar, plus an additional amount in case the price of KOF shares is higher than Ps. 178.5 per share (the "Additional Amount"), in connection with the following option: the sellers will have the option to capitalize, in an amount equivalent to the promissory note plus the Additional Amount, a new Mexican company to be merged into Coca-Cola FEMSA in order to receive KOF publicly traded shares at a price of Ps. 178.5.

As of December 6, 2016, the fair value of KOF series L (KL) shares was Ps. 128.88 per share, in addition the KL shares have not been issued, consequently as a result of this subsequent transaction an embedded financial instrument was originated and recorded into equity for an amount of Ps. 485. In accordance with IAS 32, in the consolidated financial statements the purchase price was also adjusted to recognize the fair value of the embedded derivative arising from the difference between the implicit value of KL shares and the fair value at acquisition date.

As of December 31, 2016 the Company is still in the process of completing its purchase price allocation of this transaction. Specifically, it is in the process of evaluating the fair value of the net assets acquired which valuation is in the process of completion with the assistance of a third party valuation expert. The Company ultimately anticipates allocating a large component of this purchase price to the value of the distribution right agreement with the Coca-Cola Company, which will be an indefinite life intangible asset.

Transaction related costs of Ps. 35 were expensed by Spal as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements. Results of operation of Vonpar have been included in the operating results from acquisition date.

Coca-Cola FEMSA preliminary estimate of the fair value of Vonpar's net assets acquired and the reconciliation of cash flows is as follows:

		2016
Total current assets (including cash acquired of Ps. 1,287)	Ps.	4,390
Total non-current assets		10,855
Distribution rights		9,602
Total assets		24,847
Total liabilities		(11,709)
Net assets acquired		13,138
Goodwill		7,854
Total consideration transferred		20,992
Amount to be paid through Promissory Notes		(6,992)
Cash acquired of Vonpar		(1,287)
Amount recognized as embedded financial instrument		485
Net cash paid	Ps.	13,198

Coca-Cola FEMSA expects to recover the amount recorded as goodwill through synergies related to the available production capacity. Goodwill has been allocated to Coca-Cola FEMSA´s cash generating unit in Brazil. The goodwill recognized and expected to be deductible for income tax purposes according to Brazil tax law, is Ps. 7,854.

Selected income statement information of Vonpar for the period from the acquisition date through to December 31, 2016 is as follows:

Income Statement		2016
Total revenues	Ps.	1,628
Income before income taxes		380
Net income	Ps.	252

4.1.2 Acquisition of Grupo Socofar

On September 30, 2015, FEMSA Comercio – Health Division completed the acquisition of 60% of Grupo Socofar. Grupo Socofar is an operator of pharmacies in South America which operated, directly and through franchises, 643 pharmacies and 154 beauty supply stores in Chile, and over 150 pharmacies in Colombia. Grupo Socofar was acquired for Ps. 7,685 in an all cash transaction. Transaction related costs of Ps. 116 were expensed by FEMSA Comercio – Health Division as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements. Socofar was included in operating results from the closing in September 2015.

The fair value of Grupo Socofar's net assets acquired is as follows:

		2016 Final Purchase Price Allocation
Total current assets (including cash acquired of Ps. 795)	Ps.	10,499
Total non-current assets		4,240
Trademark rights		3,033
Total assets		17,772
Total liabilities		(12,564)
Net assets acquired		5,208
Goodwill		4,559 (1)
Non-controlling interest (2)		(2,082)
Total consideration transferred	Ps.	7,685

(1) As a result of the purchase price allocation which was finalized in 2016, additional fair value adjustments from those recognized in 2015 have been recognized as follow: property, plant and equipment amounted of Ps. 197, trademark rights amounted of Ps. 3,033, other intangible assets with finete live amounted of Ps. 163 and deferred tax liabilities amounted of Ps. 1,009.

(2) Measured at the proportionate share of the acquiree's identificable net assets.

FEMSA Comercio – Health Division expects to recover the amount recorded as goodwill through synergies related to the implementation of successful practices from its existing Mexican operations such as speed and quality in execution of the customer's value proposition and growth. Goodwill has been allocated to FEMSA Comercio Health Division cash generating units in South America (see Note 12).

Selected income statement information of Socofar for the period from the acquisition date through December 31, 2015 is as follows:

Income Statement		2015
Total revenues	Ps.	7,583
Income before income taxes		394
Net income	Ps.	354

FEMSA Comercio – Health Division entered into option transactions regarding the remaining 40% non-controlling interest not held by FEMSA Comercio – Health Division. The former controlling shareholders of Socofar may be able to put some or all of that interest to FEMSA Comercio – Health Division beginning (i) 42-months after the initial acquisition, upon the occurrence of certain events and (ii) 60 months after the initial acquisition, in any event, FEMSA Comercio – Health Division can call the remaining 40% non-controlling interest beginning on the seventh anniversary of the initial acquisition date. Both of these options would be exercisable at the then fair value of the interest and shall remain indefinitely.

4.1.3 Other acquisitions

During 2016, the Company completed a smaller acquisitions which in the aggregate amounted to Ps. 5,612. These acquisitions were primarily related to the following: (1) acquisition of 100% of Farmacias Acuña, a drugstore operator in Bogota, Colombia; at the acquisition date, Farmacias Acuña operated 51 drugstores.; (2) acquisition of an additional 50% of Specialty's Café and Bakery Inc. shares, a small coffee and bakery restaurant ("Specialty's"), reaching an 80% of ownership, with 56 stores in California, Washington and Illinois in the United States; (3) acquisition of 100% of Comercial Big John Limitada "Big John", an operator of small-box retail format stores located in Santiago, Chile; at the acquisition date, Big John operated 49 stores; (4) acquisition of 100% of Operadora de Farmacias Generix, S.A.P.I. de C.V., a regional drugstore operator in Guadalajara, Guanajuato, Mexico City and Queretaro in Mexico; at the acquisition date, Farmacias Generix operated 70 drugstores and one distribution center; (5) acquisition of 100% of Grupo Torrey (which consist in many companies constituted as S.A. de C.V.), a Mexican company with 47 years of know-how in operation in the manufacture of equipment for the processing, conservation and weighing of foods, with corporate offices in Monterrey, Mexico and (6) acquisition of 80% of Open Market, a specialized company in providing end-to-end integral logistics solutions to the local and international companies which operate in Colombia. Transactions related costs in the aggregate amounted of Ps. 46 were expensed as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements.

The Company is currently in the process of allocating to all assets acquired and liabilities assumed in the acquisitions the consideration transferred as the sum of the acquisitions-dates fair values of the net assets acquired because it is conducting a detailed review process. The Company expects to finish the allocation during the following year but before the measurement period allowed by IFRS; preliminary estimate of fair value of 2016 acquisitions' net assets acquired in the aggregate is as follows:

		2016
Total current assets (including cash acquired of Ps. 211)	Ps.	1,267
Total non-current assets		1,958
Total assets		3,225
Total liabilities		(1,664)
Net assets acquired		1,561
Goodwill		4,420
Non-controling interest [1]		(369)
Equity interest held previously		369
Total consideration transferred	Ps.	5,243

[1] In the case of the acqusition of Specialty's the non-controling interest was measured at fair value at the acquisition date, and for Open Market the non-controling interest was recognized at the proportionate share of the net assets acquired.

During 2016, FEMSA Comercio has been allocated goodwill in the acqusitions in FEMSA Comercio – Retail Division in Chile and FEMSA Comercio – Health Division in Mexico and Colombia, to each one respectively. FEMSA Comercio expects to recover the amount recorded through synergies related to the adoption of the Company's economic current value proposition, the ability to apply the successful operational processes and expansion planning designed for each unit.

Other companies dedicated to the production, distribution of coolers and logistic transportation services have been allocated goodwill of Grupo Torrey and Open Market, respectively in Mexico and Colombia. The companies dedicated to the production and distribution expect to recover the goodwill through synergies related to operative improvements; in the case of logistic transportation services, through the know how of specialized skills to attend pharmaceutical market and increasing new customers in the countries where the company operates.

Selected income statement information of other acquisitions in the aggregate amount for the period from the acquisition date through December 31, 2016 is as follows:

Income Statement		2016
Total revenues	Ps.	2,400
Income before income taxes		(66)
Net income	Ps.	(126)

The former controlling shareholders of Open Market retain a put for their remaining 20% non-controlling interest that can be exercised (i) at any time after the acquisition date upon the occurrence of certain events and (ii) annually from January through April, after the third anniversary of the acquisition date. In any event, the Company through one of its subsidiaries can call the remaining 20% non-controlling interest annually from January through April, after the fifth anniversary of the acquisition date. Both options would be exercisable at the then fair value of the interest and shall remain indefinitely. Given that these options are exercisable at the then fair value on exercise date, their value is not significant at the acquisition date and at December 31, 2016.

During 2015, the Company completed smaller acquisitions and mergers which in the aggregate amounted to Ps. 5,892. These acquisitions and mergers were primarily related to the following: acquisition of 100% Farmacias Farmacon, a regional drugstore operator in the western Mexican states of Sinaloa, Sonora, Baja California and Baja California Sur with headquarters in the city of Culiacan, Sinaloa, at the acquisition date Farmacias Farmacon operated 215 stores; merger of 100% of PEMEX franchises in which FEMSA Comercio – Fuel Division has been providing operational and administrative services for gasoline service stations through agreements with third parties, using the commercial brand name "OXXO GAS", at the acquisition date there were 227 OXXO GAS stations; acquisition of 100% of "Zimag", supplier of logistics services in Mexico, with experience in warehousing, distribution and value added services over twelve cities in Mexico mainly in Mexico City, Monterrey, Guanajuato, Chihuahua, Merida and Tijuana; acquisition of 100% of Atlas Transportes e Logistica, supplier of logistics services in Brazil, with experience in the service industry breakbulk logistics with a network of 49 operative centers and over 1,200 freight units through all regions in Brazil. Transactions related costs in the aggregate amounted of Ps. 39 were expensed as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements.

The fair value of other acquisitions' net assets acquired in the aggregate is as follows:

		Final Purchase Price Allocation
Total current assets (including cash acquired of Ps. 71)	Ps.	1,683
Total non-current assets		2,319
Total assets		4,002
Total liabilities		(2,955)
Net assets acquired		1,047
Goodwill		5,027[1]
Total consideration transferred	Ps.	6,074

[1] As a result of the purchase price allocation which was finalized in 2016, additional fair value adjustments from those recognized in 2015 have been recognized as follow: property, plant and equipment amounted of Ps. 130, trademark rights amounted of Ps. 453 and other liabilities amounted of Ps. 1,202.

FEMSA Comercio – Health Division and the logistic services business expect to recover the amount recorded as goodwill through synergies related to the ability to apply the operational processes of these business units. Farmacias Farmacon goodwill have been allocated to FEMSA Comercio – Health Division cash generating unit in Mexico and merger of PEMEX franchises goodwill have been allocated to FEMSA Comercio – Fuel Division cash generating unit in Mexico. Zimag and Atlas Transportes e Logistica goodwill have been allocated into logistic services business's cash generating unit in Mexico and Brazil, respectively.

Selected income statement information of these acquisitions for the period from the acquisition date through December 31, 2015 is as follows:

Income Statement		**2015**
Total revenues	Ps.	20,262
Income before income taxes		176
Net income	Ps.	120

Unaudited Pro Forma Financial Data

The following unaudited consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the acquisition of Vonpar, Farmacias Acuña, Specialty´s, Big John, Farmacias Generix, Grupo Torrey and Open Market as if they occurred on January 1, 2016; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired companies. Unaudited pro forma financial data for all acquisitions and merger included, are as follow.

		Unaudited pro forma financial information for the -year ended December 31, 2016
Total revenues	**Ps.**	**410,831**
Income before income taxes and share of the profit of associates and joint ventures accounting for using the equity method		**29,950**
Net income		**28,110**
Basic net controlling interest income per share Series "B"	**Ps.**	**1.08**
Basic net controlling interest income per share Series "D"		**1.35**

Below are unaudited consolidated pro forma data of the acquisitions made on 2015 as if Grupo Socofar, Farmacias Farmacon, Zimag, Atlas Transportes e Logística and merger of PEMEX franchises were acquired on January 1, 2015:

		Unaudited pro forma financial information for the -year ended December 31, 2015
Total revenues	Ps.	340,600
Income before income taxes and share of the profit of associates and joint ventures accounting for using the equity method		27,485
Net income		25,004
Basic net controlling interest income per share Series "B"	Ps.	0.97
Basic net controlling interest income per share Series "D"		1.21

Note 5. Cash and Cash Equivalents

For the purposes of the statement of cash flows, the cash ítem includes cash on hand and in bank deposits and cash equivalents, which are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with a maturity date of three months or less at their acquisition date. Cash at the end of the reporting period as shown in the consolidated statement of cash flows is comprised of the following:

		December 31, 2016		**December 31, 2015**
Cash and bank balances	**Ps.**	**18,140**	Ps.	12,530
Cash equivalents (see Note 3.5)		**25,497**		16,866
	Ps.	**43,637**	Ps.	29,396

As explained in Note 3.3 above, the Company operates in Venezuela, which has a certain level of exchange control restrictions, that might prevent cash and cash equivalent balances from being available for use elsewhere in the group. At December 31, 2016 and 2015, cash and cash equivalent balances of the Company's Venezuela subsidiaries were Ps. 2,764 and Ps. 1,259, respectively.

Note 6. Investments

As of December 31, 2016 and 2015 investments are classified as held-to maturity, the carrying value of the investments is similar to their fair value. The following is a detail of held-to maturity investments:

Held-to Maturity [(1)]

Corporate Debt Securities		**2016**		**2015**
Acquisition cost	**Ps.**	**118**	Ps.	19
Accrued interest		**2**		-
Amortized cost	**Ps.**	**120**	Ps.	19
	Ps.	**120**	Ps.	19

(1) Denominated in euros at a fixed interest rate. Investments as of December 31, 2016 mature during 2017.

For the years ended December 31, 2015 and 2014, the effect of the investments in the consolidated income statements under the interest income item is Ps. 1 and Ps. 3, respectively. For the year ended December 31, 2016 the Company recognized an immaterial amount in the consolidated income statement.

Note 7. Accounts Receivable, Net

		December 31, 2016		December 31, 2015
Trade receivables	**Ps.**	**22,177**	Ps.	14,696
Allowance for doubtful accounts		**(1,193)**		(849)
The Coca-Cola Company (see Note 14)		**1,857**		1,559
Loans to employees		**229**		151
Other related parties		**254**		243
Heineken (see Note 14)		**1,041**		754
Others		**1,857**		1,458
	Ps.	**26,222**	Ps.	18,012

7.1 Trade receivables

Accounts receivable representing rights arising from sales and loans to employees or any other similar concept, are presented net of discounts and the allowance for doubtful accounts.

Coca-Cola FEMSA has accounts receivable from The Coca-Cola Company arising from the latter's participation in advertising and promotional programs and investment in refrigeration equipment and returnable bottles made by Coca-Cola FEMSA.

The carrying value of accounts receivable approximates its fair value as of December 31, 2016 and 2015.

Aging of past due but not impaired (days outstanding)

		December 31, 2016		December 31, 2015
60-90 days	**Ps.**	**610**	Ps.	178
90-120 days		**216**		161
120+ days		**1,539**		588
Total	**Ps.**	**2,365**	Ps.	927

7.2 Changes in the allowance for doubtful accounts

		2016		2015		2014
Opening balance	**Ps.**	**849**	Ps.	456	Ps.	489
Allowance for the year		**467**		167		94
Charges and write-offs of uncollectible accounts		**(418)**		(99)		(90)
Addition from business combinations		**94**		401		-
Effects of changes in foreign exchange rates		**201**		(76)		(37)
Ending balance	**Ps.**	**1,193**	Ps.	849	Ps.	456

In determining the recoverability of trade receivables, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and disperse.

7.3 Payments from The Coca-Cola Company

The Coca-Cola Company participates in certain advertising and promotional programs as well as in the Coca-Cola FEMSA's refrigeration equipment and returnable bottles investment program. Contributions received by Coca-Cola FEMSA for advertising and promotional incentives are recognized as a reduction in selling expenses and contributions received for the refrigeration equipment and returnable bottles investment program are recorded as a reduction in the carrying amount of refrigeration equipment and returnable bottles items. For the years ended December 31, 2016, 2015 and 2014 contributions due were Ps. 4,518, Ps. 3,749 and Ps. 4,118, respectively.

Note 8. Inventories

		December 31, 2016		December 31, 2015
Finished products	**Ps.**	**22,709**	Ps.	17,631
Raw materials		**5,156**		3,629
Spare parts		**2,401**		1,661
Work in process		**144**		108
Inventories in transit		**1,188**		1,534
Other		**334**		117
	Ps.	**31,932**	Ps.	24,680

For the years ended at 2016, 2015 and 2014, the Company recognized write-downs of its inventories for Ps. 1,832, Ps. 1,290 and Ps. 1,028 to net realizable value, respectively.

For the years ended at 2016, 2015 and 2014, changes in inventories are comprised as follows and included in the consolidated income statement under the cost of goods sold caption:

	2016	2015	2014
Changes in inventories of finished goods and work in progress	**Ps. 172,554**	Ps. 132,835	Ps. 92,390
Raw materials and consumables used	**63,285**	53,514	55,038
Total	**Ps. 235,839**	Ps. 186,349	Ps. 147,428

Note 9. Other Current Assets and Other Current Financial Assets

9.1 Other current assets

	December 31, 2016	December 31, 2015
Prepaid expenses	**Ps. 3,784**	Ps. 3,363
Agreements with customers	**179**	168
Short-term licenses	**112**	86
Other	**34**	37
	Ps. 4,109	Ps. 3,654

Prepaid expenses as of December 31, 2016 and 2015 are as follows:

	December 31, 2016	December 31, 2015
Advances for inventories	**Ps. 2,734**	Ps. 2,291
Advertising and promotional expenses paid in advance	**171**	58
Advances to service suppliers	**466**	601
Prepaid leases	**164**	115
Prepaid insurance	**104**	58
Others	**145**	240
	Ps. 3,784	Ps. 3,363

Advertising and promotional expenses paid in advance recorded in the consolidated income statement for the years ended December 31, 2016, 2015 and 2014 amounted to Ps. 6,578, Ps. 4,613 and Ps. 4,460, respectively.

9.2 Other current financial assets

	December 31, 2016	December 31, 2015
Restricted cash	**Ps. 774**	Ps. 704
Derivative financial instruments (see Note 20)	**1,917**	523
Short term note receivable [1]	**14**	1,191
	Ps. 2,705	Ps. 2,418

[1] The carrying value approximates its fair value as of December 31, 2016 and 2015.

The Company has pledged part of its short-term deposits in order to fulfill the collateral requirements for the accounts payable in different currencies. As of December 31, 2016 and 2015, the carrying of the short-term deposit pledged were:

	December 31, 2016	December 31, 2015
Venezuelan bolivars	**Ps. 183**	Ps. 344
Brazilian reais	**73**	360
Colombian pesos	**518**	-
	Ps. 774	Ps. 704

Restricted cash in Venezuela and Brazil relates to short term deposits in order to fulfill the collateral requirements for accounts payable.

During 2016 due to a jurisdictional order with the municipal sewage system services, the Colombian autorithies withheld all the cash that Coca-Cola FEMSA has in the bank account, the total amount of which was reclassified as a restricted cash according with the Company's accounting policy.

Note 10. Investments in Associates and Joint Ventures

Details of the Company's associates and joint ventures accounted for under the equity method at the end of the reporting period are as follows:

Investee	Principal Activity	Place of Incorporation	Ownership Percentage December 31, 2016	Ownership Percentage December 31, 2015	Carrying Amount December 31, 2016	Carrying Amount December 31, 2015
Heineken [1] [2]	Beverages	The Netherlands	**20.0%**	20.0%	**Ps. 105,229**	Ps. 92,694
Coca-Cola FEMSA:						
Joint ventures:						
Compañía Panameña de Bebidas, S.A.P.I. de C.V.	Beverages	Panama	**50.0%**	50.0%	**1,911**	1,573
Dispensadoras de Café, S.A.P.I. de C.V.	Services	Mexico	**50.0%**	50.0%	**145**	161
Estancia Hidromineral Itabirito, L.T.D.A	Bottling and distribution	Brazil	**50.0%**	50.0%	**96**	160
Coca-Cola FEMSA Philippines, Inc. ("CCFPI")	Bottling	Philippines	**51.0%**	51.0%	**11,460**	9,996
Fountain Agua Mineral, L.T.D.A	Beverages	Brazil	**50.0%**	50.0%	**765**	491
Associates:						
Promotora Industrial Azucarera, S.A. de C.V. ("PIASA")	Sugar production	Mexico	**36.4%**	36.4%	**2,657**	2,187
Industria Envasadora de Queretaro, S.A. de C.V. ("IEQSA")	Canned bottling	Mexico	**26.5%**	26.5%	**177**	172
Industria Mexicana de Reciclaje, S.A. de C.V. ("IMER")	Recycling	Mexico	**35.0%**	35.0%	**100**	100
Jugos del Valle, S.A.P.I. de C.V.	Beverages	Mexico	**26.3%**	26.3%	**1,574**	1,531
KSP Partiçipações, L.T.D.A.	Beverages	Brazil	**38.7%**	38.7%	**126**	80
Leao Alimentos e Bebidas, L.T.D.A.	Beverages	Brazil	**27.7%**	24.4%	**3,282**	1,363
Other investments in Coca-Cola FEMSA's companies	Various	Various	**Various**	Various	**64**	60
FEMSA Comercio:						
Café del Pacifico, S.A.P.I. de C.V. (Caffenio) [1]	Coffee	Mexico	**40.0%**	40.0%	**493**	467
Other investments [1] [3]	Various	Various	**Various**	Various	**522**	696
					Ps. 128,601	Ps. 111,731

(1) Associate.

(2) As of December 31, 2016 and 2015, comprised of 12.53% of Heineken, N.V. and 14.94% of Heineken Holding, N.V., which represents an economic interest of 20% in Heineken. The Company has significant influence, mainly, due to the fact that it participates in the Board of Directors of Heineken Holding, N.V. and the Supervisory Board of Heineken N.V.; and for the material transactions between the Company and Heineken.

(3) Joint ventures.

As mentioned in Note 4, on December 6, Coca-Cola FEMSA through its subsidiary Spal, completed the acquisition of 100% of Vonpar. As part of this acquisition Spal increase its equity interest to 3.36% in Leao Alimentos e Bebidas, LTDA.

During 2016 the Coca-Cola FEMSA made capital contributions to Leao Alimentos e Bebidas, LTDA, Compañía Panameña de Bebidas, S.A.P.I. de C.V. and Promotora Industrial Azucarera, S.A. de C.V. in the amounts of Ps. 1,273, Ps. 419 and Ps. 376, respectively , there were no changes in the ownership percentage as a result of capital contributions made by the other shareholders.

During 2016 the Coca-Cola FEMSA received dividends from Industria Envasadora de Queretaro, S.A. de C.V., and Estancia Hidromineral Itabirito, LTDA in the amount of Ps. 5 and Ps. 190.

During 2015, Coca-Cola FEMSA received dividends from Industria Envasadora de Queretaro, S.A. de C.V., in the amount of Ps. 13 and subsequently sold shares for an amount of Ps. 22.

During 2015, Coca-Cola FEMSA made capital contributions to Compañía Panameña de Bebidas, S.A.P.I. de C.V. in the amount of Ps. 7.

During 2015, Coca-Cola FEMSA made capital contributions to Leao Alimentos e Bebidas, L.T.D.A. in the amount of Ps. 71.

On January 25, 2013, Coca-Cola FEMSA closed the acquisition of 51% of CCFPI for an amount of $688.5 U.S. dollars (Ps. 8,904) in an all-cash transaction. As part of the agreement, Coca-Cola FEMSA obtained a call option to acquire the remaining 49% of CCFPI at any time during the seven years following the closing. Coca-Cola FEMSA also has a put option to sell its 51% ownership to The Coca-Cola Company at any time from the fifth anniversary of the date of acquisition until the sixth anniversary, at a price which is based in part on the fair value of CCFPI at the date of acquisition (see Note 20.7).

Although Coca-Cola FEMSA currently owns 51% of CCFPI, when considering (i) the terms of the shareholders' agreements (specifically the fact that during the initial four year period the joint approval of both Coca-Cola FEMSA and TCCC is required to approve CCFPI´s annual business plan, which is the key documents pursuant to which CCFPI´s business is operated among other matters); and (ii) potential voting rights to acquire the remaining 49% of CCFPI are not probable to be executed in the foreseeable future and the fact that the call option remains "out of the money", the Company has concluded it did not control CCFPI during any of the periods presented in the consolidated financial statements and consequently the Company has accounted for this investment as joint venture using the equity method. As disclosed in Note 28, starting in February 2017 Coca-Cola FEMSA will take control over the relevant activities of CCFPI´s in accordance with the shareholders agreements and will consolidated CCFPI results.

On April 30, 2010, the Company acquired an economic interest of 20% of Heineken Group. Heineken's main activities are the production, distribution and marketing of beer worldwide. The Company recognized an equity income of Ps. 6,342, Ps. 5,879 and Ps. 5,244, net of taxes regarding its interest in Heineken for the years ended December 31, 2016, 2015 and 2014, respectively. The Company's equity method in the net income attributable to equity holders of Heineken exclusive of amortization of adjustments amounted to Ps. 6,430 (€. 308 million), Ps. 6,567 (€. 378 million) and Ps. 5,362 (€. 303 million), for the years ended December 31, 2016, 2015 and 2014, respectively.

Summarized financial information in respect of the associate Heineken accounted for under the equity method is set out below.

	December 31, 2016				December 31, 2015			
	Million of				Million of			
		Peso		Euro		Peso		Euro
Total current assets	**Ps.**	**177,176**	**€.**	**8,137**	Ps.	157,599	€.	8,322
Total non-current assets		**679,004**		**31,184**		602,217		31,800
Total current liabilities		**226,385**		**10,397**		206,875		10,924
Total non-current liabilities		**312,480**		**14,351**		267,551		14,128
Total equity		**317,315**		**14,573**		285,390		15,070
Equity attributable to equity holders of Heineken		**288,246**		**13,238**		256,323		13,535
Total revenue and other income	**Ps.**	**427,019**	**€.**	**20,838**	Ps.	363,191	€.	20,922
Total cost and expenses		**370,563**		**18,083**		309,812		17,847
Net income	**Ps.**	**35,636**	**€.**	**1,739**	Ps.	37,166	€.	2,141
Net income attributable to equity holders of the company		**31,558**		**1,540**		32,844		1,892
Other comprehensive income		**(19,037)**		**(929)**		4,809		277
Total comprehensive income	**Ps.**	**16,599**	**€.**	**810**	Ps.	41,975	€.	2,418
Total comprehensive income attributable to equity holders of the company		**13,525**		**660**		37,323		2,150

Reconciliation from the equity of the associate Heineken to the investment of the Company.

	December 31, 2016				December 31, 2015			
	Million of				Million of			
		Peso		Euro		Peso		Euro
Equity attributable to equity holders of Heineken	**Ps.**	**288,090**	**€.**	**13,238**	Ps.	256,323	€.	13,535
Economic ownership percentage		**20%**		**20%**		20%		20%
Investment in Heineken exclusive of goodwill and others adjustments	**Ps.**	**57,618**	**€.**	**2,648**	Ps.	51,265	€.	2,707
Effects of fair value determined by Purchase Price Allocation		**21,495**		**988**		18,704		988
Goodwill		**26,116**		**1,200**		22,725		1,200
Investment in Heineken	**Ps.**	**105,229**	**€.**	**4,836**	Ps.	92,694	€.	4,895

For the years then ended December 31, 2016 and 2015 fair value of Company's investment in Heineken N.V. Holding and Heineken N.V. represented by shares equivalent to 20% of its outstanding shares amounted to Ps. 173,857 (€. 7,989 million) and Ps. 165,517 (€. 8,740 million) based on quoted market prices of those dates. As of February 24, 2017, issuance date of these consolidated financial statements, fair value amounted to €. 8,695 million.

During the years ended December 31, 2016, 2015 and 2014, the Company received dividends distributions from Heineken, amounting to Ps. 3,263, Ps. 2,343 and Ps. 1,795, respectively.

For the years then ended December 31, 2016, 2015 and 2014 the total net income corresponding to the inmaterial associates of Coca-Cola FEMSA was Ps. 31, Ps. 185 and Ps. 195, respectively.

For the years then ended December 31, 2016, 2015 and 2014 the total net income (loss) corresponding to the inmaterial joint ventures of Coca-Cola FEMSA was Ps. 116, Ps. (30) and Ps. (320), respectively.

The Company's share of other comprehensive income from equity investees, net of taxes for the year ended December 31, 2016, 2015 and 2014 are as follows:

		2016		2015		2014
Items that may be reclassified to consolidated net income:						
Valuation of the effective portion of derivative financial instruments	**Ps.**	**614**	Ps.	213	Ps.	(257)
Exchange differences on translating foreign operations		**(2,842)**		69		1,579
Total	**Ps.**	**(2,228)**	Ps.	282	Ps.	1,322
Items that may not be reclassified to consolidated net income in subsequent periods:						
Remeasurements of the net defined benefit liability	**Ps.**	**(1,004)**	Ps.	169	Ps.	(881)

Note 11. Property, Plant and Equipment, Net

Cost	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
January 1, 2014	Ps. 7,094	Ps. 17,544	Ps. 49,877	Ps. 13,389	Ps. 7,386	Ps. 7,039	Ps. 10,693	Ps. 1,566	Ps. 114,588
Additions	803	54	4,156	32	398	11,209	99	234	16,985
Changes in fair value of past acquisitions	(115)	(610)	891	(57)	-	(68)	99	(253)	(113)
Transfer of completed projects in progress	-	1,717	2,823	1,523	1,994	(10,050)	1,990	3	-
Transfer (to)/from assets classified as held for sale	-	-	(134)	-	-	-	-	-	(134)
Disposals	(17)	(144)	(2,243)	(632)	(60)	(5)	(587)	(79)	(3,767)
Effects of changes in foreign exchange rates	(664)	(3,125)	(5,415)	(1,975)	(323)	(545)	(44)	(506)	(12,597)
Changes in value on the recognition of inflation effects	110	355	531	186	7	29	-	110	1,328
Capitalization of borrowing costs	-	-	33	-	-	263	-	-	296
Cost as of December 31, 2014	Ps. 7,211	Ps. 15,791	Ps. 50,519	Ps. 12,466	Ps. 9,402	Ps. 7,872	Ps. 12,250	Ps. 1,075	Ps. 116,586
Cost as of January 1, 2015	Ps. 7,211	Ps. 15,791	Ps. 50,519	Ps. 12,466	Ps. 9,402	Ps. 7,872	Ps. 12,250	Ps. 1,075	Ps. 116,586
Additions	675	1,688	5,122	851	1,655	6,942	41	511	17,485
Additions from business acquisitions	30	251	870	-	-	-	862	-	2,013
Transfer of completed projects in progress	59	1,289	3,251	1,168	662	(8,143)	1,714	-	-
Transfer (to)/from assets classified as held for sale	-	-	(10)	-	-	-	-	-	(10)
Disposals	(56)	(219)	(2,694)	(972)	(103)	-	(356)	(40)	(4,440)
Effects of changes in foreign exchange rates	(595)	(1,352)	(4,330)	(1,216)	(266)	(1,004)	(23)	(848)	(9,634)
Changes in value on the recognition of inflation effects	245	503	957	295	301	91	-	229	2,621
Capitalization of borrowing costs	-	-	-	-	-	57	-	-	57
Cost as of December 31, 2015	Ps. 7,569	Ps. 17,951	Ps. 53,685	Ps. 12,592	Ps. 11,651	Ps. 5,815	Ps. 14,488	Ps. 927	Ps. 124,678
Cost as of January 1, **2016**	**Ps. 7,569**	**Ps. 17,951**	**Ps. 53,685**	**Ps. 12,592**	**Ps. 11,651**	**Ps. 5,815**	**Ps. 14,488**	**Ps. 927**	**Ps.124,678**
Additions	**328**	**877**	**6,499**	**73**	**2,236**	**8,667**	**36**	**367**	**19,083**
Additions from business acquisitions	**163**	**763**	**1,521**	**105**	**23**	**45**	**668**	**-**	**3,288**
Changes in fair value of past acquisitions	**50**	**-**	**85**	**-**	**-**	**-**	**115**	**-**	**250**
Transfer of completed projects in progress	**46**	**1,039**	**2,445**	**1,978**	**779**	**(8,493)**	**2,206**	**-**	**-**
Transfer (to)/from assets classified as held for sale	**-**	**-**	**(36)**	**-**	**-**	**-**	**-**	**-**	**(36)**
Disposals	**(88)**	**(202)**	**(2,461)**	**(574)**	**(139)**	**(2)**	**(474)**	**(19)**	**(3,959)**
Effects of changes in foreign exchange rates	**260**	**2,643**	**5,858**	**1,953**	**1,271**	**569**	**329**	**(132)**	**12,751**
Changes in value on the recognition of inflation effects	**854**	**1,470**	**2,710**	**851**	**122**	**415**	**-**	**942**	**7,364**
Capitalization of borrowing costs	**-**	**-**	**61**	**-**	**-**	**(38)**	**-**	**1**	**24**
Cost as of December 31, **2016**	**Ps. 9,182**	**Ps. 24,541**	**Ps. 70,367**	**Ps. 16,978**	**Ps. 15,943**	**Ps. 6,978**	**Ps. 17,368**	**Ps. 2,086**	**Ps.163,443**

Accumulated Depreciation	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
Accumulated Depreciation as of January 1, 2014	Ps. -	Ps. (4,674)	Ps. (21,779)	Ps. (6,976)	Ps. (3,480)	Ps. -	Ps. (3,270)	Ps. (454)	Ps. (40,633)
Depreciation for the year	-	(466)	(4,525)	(1,181)	(1,879)	-	(863)	(115)	(9,029)
Transfer (to)/from assets classified as held for sale	-	-	62	-	-	-	-	-	62
Disposals	-	77	2,086	602	57	-	517	1	3,340
Effects of changes in foreign exchange rates	-	1,512	3,481	1,046	105	-	2	236	6,382
Changes in value on the recognition of inflation effects	-	(175)	(707)	(135)	(8)	-	-	(54)	(1,079)
Accumulated Depreciation as of December 31, 2014	Ps. -	Ps. (3,726)	Ps. (21,382)	Ps. (6,644)	Ps. (5,205)	Ps. -	Ps. (3,614)	Ps. (386)	Ps. (40,957)
Accumulated Depreciation as of January 1, 2015	Ps. -	Ps. (3,726)	Ps. (21,382)	Ps. (6,644)	Ps. (5,205)	Ps. -	Ps. (3,614)	Ps. (386)	Ps. (40,957)
Depreciation for the year	-	(515)	(4,864)	(1,184)	(1,984)	-	(1,071)	(143)	(9,761)
Disposals	-	172	2,001	946	80	-	270	2	3,471
Effects of changes in foreign exchange rates	-	498	2,222	1,044	167	-	22	212	4,165
Changes in value on the recognition of inflation effects	-	(187)	(426)	(166)	(436)	-	1	(86)	(1,300)
Accumulated Depreciation as of December 31, 2015	Ps. -	Ps. (3,758)	Ps. (22,449)	Ps. (6,004)	Ps. (7,378)	Ps. -	Ps. (4,392)	Ps. (401)	Ps. (44,382)
Accumulated Depreciation as of January 1, **2016**	**Ps. -**	**Ps. (3,758)**	**Ps. (22,449)**	**Ps. (6,004)**	**Ps. (7,378)**	**Ps. -**	**Ps. (4,392)**	**Ps. (401)**	**Ps.(44,382)**
Depreciation for the year	**-**	**(734)**	**(5,737)**	**(1,723)**	**(2,235)**	**-**	**(1,447)**	**(200)**	**(12,076)**
Transfer to/(from) assets classified as held for sale	**-**	**-**	**16**	**-**	**-**	**-**	**-**	**-**	**16**
Disposals	**-**	**132**	**2,101**	**672**	**227**	**-**	**364**	**9**	**3,505**
Effects of changes in foreign exchange rates	**-**	**(600)**	**(3,093)**	**(1,147)**	**(847)**	**-**	**(81)**	**39**	**(5,729)**
Changes in value on the recognition of inflation effects	**-**	**(593)**	**(1,101)**	**(521)**	**(33)**	**-**	**-**	**(306)**	**(2,554)**
Accumulated Depreciation as of December 31, **2016**	**Ps. -**	**Ps. (5,553)**	**Ps. (30,263)**	**Ps. (8,723)**	**Ps. (10,266)**	**Ps. -**	**Ps. (5,556)**	**Ps. (859)**	**Ps. (61,220)**

Carrying Amount	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
As of December 31, 2014	Ps. 7,211	Ps. 12,065	Ps. 29,137	Ps. 5,822	Ps. 4,197	Ps. 7,872	Ps. 8,636	Ps. 689	Ps. 75,629
As of December 31, 2015	Ps. 7,569	Ps. 14,193	Ps. 31,236	Ps. 6,588	Ps. 4,273	Ps. 5,815	Ps. 10,096	Ps. 526	Ps. 80,296
As of December 31, **2016**	**Ps. 9,182**	**Ps. 18,988**	**Ps. 40,104**	**Ps. 8,255**	**Ps. 5,677**	**Ps. 6,978**	**Ps. 11,812**	**Ps. 1,227**	**Ps.102,223**

During the years ended December 31, 2016, 2015 and 2014 the Company capitalized Ps. 61, Ps. 57 and Ps. 296, respectively of borrowing costs in relation to Ps. 99, Ps. 993 and Ps. 1,915 in qualifying assets. The effective interest rates used to determine the amount of borrowing costs eligible for capitalization were 4.5%, 4.1% and 4.8%, respectively.

For the years ended December 31, 2016, 2015 and 2014 interest expense, interest income and net foreign exchange losses and gains are analyzed as follows:

	2016	2015	2014
Interest expense, interest income and net foreign exchange	**Ps. 7,285**	Ps. 8,031	Ps. 7,080
Amount capitalized [(1)]	**69**	85	338
Net amount in consolidated income statements	**Ps. 7,216**	Ps. 7,946	Ps. 6,742

[(1)] Amount of interest capitalized in property, plant and equipment and intangible assets.

Commitments related to acquisitions of property, plant and equipment are disclosed in Note 25.8.

Note 12. Intangible Assets

Cost	Rights to Produce and Distribute Coca-Cola Trademark Products	Goodwill	Trademark Rights	Other Indefinite Lived Intangible Assets	Total Unamortized Intangible Assets	Technology Costs and Management Systems	Systems in Development	Alcohol Licenses	Other	Total Amortized Intangible Assets	Total Intangible Assets
Cost as of January 1, 2014	Ps. 75,727	Ps. 21,308	Ps. 1,515	Ps. 272	Ps. 98,822	Ps. 3,219	Ps. 1,604	Ps. 859	Ps. 690	Ps. 6,372	Ps. 105,194
Purchases	-	-	-	13	13	227	229	168	44	668	681
Change in fair value of past acquisitions	(2,416)	4,117	-	(205)	1,496	-	-	-	(17)	(17)	1,479
Transfer of completed development systems	-	-	-	-	-	278	(278)	-	-	-	-
Disposals	-	-	-	(8)	(8)	(387)	-	-	(33)	(420)	(428)
Effect of movements in exchange rates	(5,343)	(251)	(1)	(9)	(5,604)	(152)	(1)	-	(13)	(166)	(5,770)
Changes in value on the recognition of inflation effects	2,295	-	-	-	2,295	(2)	-	-	-	(2)	2,293
Capitalization of borrowing costs	-	-	-	-	-	42	-	-	-	42	42
Cost as of December 31, 2014	Ps. 70,263	Ps. 25,174	Ps. 1,514	Ps. 63	Ps. 97,014	Ps. 3,225	Ps. 1,554	Ps. 1,027	Ps. 671	Ps. 6,477	Ps. 103,491
Cost as of January 1, 2015	Ps. 70,263	Ps. 25,174	Ps. 1,514	Ps. 63	Ps. 97,014	Ps. 3,225	Ps. 1,554	Ps. 1,027	Ps. 671	Ps. 6,477	Ps. 103,491
Purchases	-	-	-	-	-	480	458	198	83	1,219	1,219
Acquisitions from business combinations	-	11,369	-	1,238	12,607	328	-	-	199	527	13,134
Transfer of completed development systems	-	-	-	-	-	1,085	(1,085)	-	-	-	-
Disposals	-	-	-	-	-	(150)	(242)	-	(77)	(469)	(469)
Effect of movements in exchange rates	(4,992)	(2,693)	(33)	(19)	(7,737)	(94)	(2)	-	(16)	(112)	(7,849)
Changes in value on the recognition of inflation effects	1,121	-	-	-	1,121	(12)	-	-	-	(12)	1,109
Capitalization of borrowing costs	-	-	-	-	-	28	-	-	-	28	28
Cost as of December 31, 2015	Ps. 66,392	Ps. 33,850	Ps. 1,481	Ps. 1,282	Ps. 103,005	Ps. 4,890	Ps. 683	Ps. 1,225	Ps. 860	Ps. 7,658	Ps. 110,663
Cost as of January 1, 2016	**Ps. 66,392**	**Ps. 33,850**	**Ps. 1,481**	**Ps. 1,282**	**Ps.103,005**	**Ps. 4,890**	**Ps. 683**	**Ps. 1,225**	**Ps. 860**	**Ps. 7,658**	**Ps. 110,663**
Purchases	**-**	**-**	**3**	**-**	**3**	**345**	**609**	**191**	**146**	**1,291**	**1,296**
Acquisitions from business combinations (see Note 4)	**9,602**	**12,276**	**239**	**1,067**	**23,184**	**318**	**3**	**-**	**174**	**495**	**23,679**
Changes in fair value of past acquisitions	**-**	**(2,385)**	**4,315**	**(554)**	**1,376**	**-**	**-**	**-**	**1,078**	**1,078**	**2,372**
Internally development	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfer of completed development systems	**-**	**-**	**-**	**-**	**-**	**304**	**(304)**	**-**	**-**	**-**	**-**
Disposals	**-**	**-**	**-**	**-**	**-**	**(336)**	**-**	**-**	**(24)**	**(360)**	**(360)**
Effect of movements in exchange rates	**8,124**	**8,116**	**187**	**392**	**16,819**	**451**	**(193)**	**-**	**104**	**362**	**17,181**
Changes in value on the recognition of inflation effects	**1,220**	**-**	**-**	**-**	**1,220**	**141**	**-**	**-**	**-**	**141**	**1,361**
Capitalization of borrowing costs	**-**	**-**	**-**	**-**	**-**	**11**	**-**	**-**	**-**	**11**	**11**
Cost as of December 31, 2016	**Ps. 85,338**	**Ps. 51,857**	**Ps. 6,225**	**Ps. 2,187**	**Ps. 145,607**	**Ps. 6,124**	**Ps. 798**	**Ps. 1,416**	**Ps. 2,338**	**Ps.10,676**	**Ps. 156,283**

Amortization and Impairment Losses	Rights to Produce and Distribute Coca-Cola Trademark Products	Goodwill	Trademark Rights	Other Indefinite Lived Intangible Assets	Total Unamortized Intangible Assets	Technology Costs and Management Systems	Systems in Development	Alcohol Licenses	Other	Total Amortized Intangible Assets	Total Intangible Assets
Amortization as of January 1, 2014	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	Ps. (1,462)	Ps. -	Ps. (177)	Ps. (262)	Ps. (1,901)	Ps. (1,901)
Amortization expense	-	-	-	-	-	(268)	-	(58)	(97)	(423)	(423)
Impairment losses	-	-	-	(36)	(36)	-	-	-	-	-	(36)
Disposals	-	-	-	-	-	387	-	-	-	387	387
Effect of movements in exchange rates	-	-	-	-	-	-	-	-	9	9	9
Amortization as of December 31, 2014	Ps. -	Ps. -	Ps. -	Ps. (36)	Ps. (36)	Ps. (1,343)	Ps. -	Ps. (235)	Ps. (350)	Ps. (1,928)	Ps. (1,964)
Amortization as of January 1, 2015	Ps. -	Ps. -	Ps. -	Ps. (36)	Ps. (36)	Ps. (1,343)	Ps. -	Ps. (235)	Ps. (350)	Ps. (1,928)	Ps. (1,964)
Amortization expense	-	-	-	-	-	(461)	-	(67)	(76)	(604)	(604)
Disposals	-	-	-	-	-	126	-	-	42	168	168
Effect of movements in exchange rates	-	-	-	-	-	59	-	-	19	78	78
Amortization as of December 31, 2015	Ps. -	Ps. -	Ps. -	Ps. (36)	Ps. (36)	Ps. (1,619)	Ps. -	Ps. (302)	Ps. (365)	Ps. (2,286)	Ps. (2,322)
Amortization as of January 1, **2016**	**Ps. -**	**Ps. -**	**Ps. -**	**Ps. (36)**	**Ps. (36)**	**Ps. (1,619)**	**Ps. -**	**Ps. (302)**	**Ps. (365)**	**Ps. (2,286)**	**Ps. (2,322)**
Amortization expense	**-**	**-**	**-**	**-**	**-**	**(630)**	**-**	**(74)**	**(302)**	**(1,006)**	**(1,006)**
Impairment losses	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Disposals	**-**	**-**	**-**	**-**	**-**	**313**	**-**	**-**	**36**	**349**	**349**
Effect of movements in exchange rates	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**-**	**(35)**	**(36)**	**(36)**
Amortization as of December 31, **2016**	**Ps. -**	**Ps. -**	**Ps. -**	**Ps. (36)**	**Ps. (36)**	**Ps. (1,937)**	**Ps. -**	**Ps. (376)**	**Ps. (666)**	**Ps. (2,979)**	**Ps. (3,015)**
Carrying Amount											
As of December 31, 2014	Ps. 70,263	Ps. 25,174	Ps. 1,514	Ps. 27	Ps. 96,978	Ps. 1,882	Ps. 1,554	Ps. 792	Ps. 321	Ps. 4,549	Ps. 101,527
As of December 31, 2015	Ps. 66,392	Ps. 33,850	Ps. 1,481	Ps. 1,246	Ps. 102,969	Ps. 3,271	Ps. 683	Ps. 923	Ps. 495	Ps. 5,372	Ps. 108,341
As of December 31, **2016**	**Ps. 85,338**	**Ps. 51,857**	**Ps. 6,225**	**Ps. 2,151**	**Ps. 145,571**	**Ps. 4,187**	**Ps. 798**	**Ps. 1,040**	**Ps. 1,672**	**Ps. 7,697**	**Ps. 153,268**

During the years ended December 31, 2016, 2015 and 2014 the Company capitalized Ps. 8, Ps. 28 and Ps. 42, respectively of borrowing costs in relation to Ps. 28, Ps. 410 and Ps. 600 in qualifying assets, respectively. The effective interest rates used to determine the amount of borrowing costs eligible for capitalization were 4.1%, 4.1% and 4.2%, respectively.

For the years ended 2016, 2015 and 2014, allocation for amortization expense is as follows:

	2016	2015	2014
Cost of goods sold	**Ps. 84**	Ps. 61	Ps. 12
Administrative expenses	**677**	407	156
Selling expenses	**160**	136	255
	Ps. 921	Ps. 604	Ps. 423

The average remaining period for the Company's intangible assets that are subject to amortization is as follows:

	Years
Technology Costs and Management Systems	3 - 10
Alcohol Licenses	12 - 15

Coca-Cola FEMSA Impairment Tests for Cash-Generating Units Containing Goodwill and Distribution Rights

For the purpose of impairment testing, goodwill and distribution rights are allocated and monitored on an individual country basis, which is considered to be the CGU.

The aggregate carrying amounts of goodwill and distribution rights allocated to each CGU are as follows:

		December 31, 2016		December 31, 2015
Mexico	**Ps.**	**55,137**	Ps.	55,137
Guatemala		**499**		410
Nicaragua		**532**		465
Costa Rica		**1,622**		1,391
Panama		**1,241**		1,033
Colombia		**5,988**		4,746
Venezuela		**1,225**		621
Brazil		**52,609**		23,557
Argentina		**67**		69
Total	**Ps.**	**118,920**	Ps.	87,429

Goodwill and distribution rights are tested for impairments annually. The recoverable amounts of the CGUs are based on value-in-use calculations. Value in use was determined by discounting the future cash flows generated from the continuing use of the CGU.

The foregoing forecasts could differ from the results obtained over time; however, Coca-Cola FEMSA prepares its estimates based on the current situation of each of the CGUs.

The recoverable amounts are based on value in use. The value in use of CGUs is determined based on the method of discounted cash flows. The key assumptions used in projecting cash flows are: volume, expected annual long-term inflation, and the weighted average cost of capital ("WACC") used to discount the projected flows.

To determine the discount rate, Coca-Cola FEMSA uses the WACC as determined for each of the cash generating units in real terms and as described in following paragraphs.

The estimated discount rates to perform the IAS 36 "Impairment of assets", impairment test for each CGU consider market participants' assumptions. Market participants were selected taking into consideration the size, operations and characteristics of the business that are similar to those of Coca-Cola FEMSA.

The discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of Coca-Cola FEMSA and its operating segments and is derived from its WACC. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by Company's investors. The cost of debt is based on the interest bearing borrowings Coca-Cola FEMSA is obliged to service, which is equivalent to the cost of debt based on the conditions that would asses a creditor in the market. Segment-specific risk is incorporated by applying beta factors which are evaluated annually based on publicly available market data.

Market participant assumptions are important because, not only do they include industry data for growth rates, management also assesses how the CGU's position, relative to its competitors, might change over the forecasted period.

The key assumptions used for the value-in-use calculations are as follows:

- Cash flows were projected based on actual operating results and the five-year business plan. Cash flows for a further five-year were forecasted maintaining the same stable growth and margins per country of the last year base. Coca-Cola FEMSA believes that this forecasted period is justified due to the non-current nature of the business and past experiences.
- Cash flows after the first ten-year period were extrapolated using a perpetual growth rate equal to the expected annual population growth, in order to calculate the terminal recoverable amount.
- A per CGU-specific Weighted Average Cost of Capital ("WACC") was applied as a hurdle rate to discount cash flows to get the recoverable amount of the units; the calculation assumes, size premium adjusting.

The key assumptions by CGU for impairment test as of December 31, 2016 were as follows:

CGU	Pre-tax WACC	Post-tax WACC	Expected Annual Long-Term Inflation 2017-2026	Expected Volume Growth Rates 2017-2026
Mexico	6.8%	6.3%	3.7%	1.2%
Colombia	7.9%	7.5%	3.2%	4.0%
Venezuela	17.5%	17.0%	117.3%	1.0%
Costa Rica	8.4%	8.3%	4.4%	4.7%
Guatemala	9.9%	9.5%	5.0%	13.2%
Nicaragua	10.6%	10.1%	4.2%	5.7%
Panama	7.8%	7.4%	3.0%	4.9%
Argentina	9.1%	8.5%	12.2%	4.1%
Brazil	8.7%	8.1%	4.4%	2.9%

The key assumptions by CGU for impairment test as of December 31, 2015 were as follows:

CGU	Pre-tax WACC	Post-tax WACC	Expected Annual Long-Term Inflation 2016-2025	Expected Volume Growth Rates 2016-2025
Mexico	6.7%	6.1%	3.4%	2.1%
Colombia	7.6%	6.8%	3.0%	4.4%
Venezuela	17.8%	17.1%	72.5%	3.9%
Costa Rica	8.2%	7.9%	4.7%	3.9%
Guatemala	10.6%	10.0%	3.7%	4.7%
Nicaragua	13.4%	12.8%	5.3%	6.4%
Panama	7.4%	6.8%	3.1%	5.2%
Argentina	9.8%	9.1%	22.8%	3.4%
Brazil	8.0%	7.4%	4.9%	4.0%

The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on both external sources and internal sources (historical data). Coca-Cola FEMSA consistently applied its methodology to determine CGU specific WACC's to perform its annual impairment testing.

Sensitivity to Changes in Assumptions

At December 31, 2016, Coca-Cola FEMSA performed an additional impairment sensitivity calculation, taking into account an adverse change in post-tax WACC, according to the country risk premium, using for each country the relative standard deviation between equity and sovereign bonds and an additional sensitivity to the volume of 100 basis points except for Venezuela and concluded that no impairment would be recorded.

For Venezuela CGU the Coca-Cola FEMSA performed a sensivity analysis with a possible change in each key assumption that must change, in order for the CGU recoverable amount assigned to its distribution right to be equal to its carrying amount in accordance with IAS 36 given the uncertainty in the macroeconomic conditions in Venezuela.

To the extent that economic and or operational conditions were to worsen in the future resulting in a conclusion that Coca-Cola FEMSA has an impairment in Venezuela an income statement charge could affect our future results. There can be no assurances that such might not happen in the future.

CGU	Change in WACC	Change in Volume Growth CAGR [1]	Effect on Valuation
Mexico	+0.4%	-1.0%	Passes by 4.1x
Colombia	+0.6%	-1.0%	Passes by 3.4x
Venezuela	+2.7%	-0.385%	Passes by 1.0x
Costa Rica	+1.1%	-1.0%	Passes by 2.7x
Guatemala	+1.0%	-1.0%	Passes by 13.3x
Nicaragua	+3.4%	-1.0%	Passes by 5.4x
Panama	+0.3%	-1.0%	Passes by 11.7x
Argentina	+0.7%	-1.0%	Passes by 270.6x
Brazil	+0.2%	-1.0%	Passes by 1.33x

(1) Compound Annual Growth Rate (CAGR).

FEMSA Comercio Impairment Test for Cash-Generating Units Containing Goodwill

For the purpose of impairment testing, goodwill is allocated and monitored on an individual country basis by operating segment. FEMSA Comercio has integrated its cash generating units as follow: Retail Division and Health Division are integrated as Mexico, Chile and Colombia for each of them and Fuel Division includes only Mexico.

As of December 31, 2016 in Health Division there is a significant carrying amount of goodwill allocated in Chile and Colombia as a group of cash generating (South America) with a total carrying amount of Ps. 5,861.

Goodwill is tested for impairments annually. The recoverable amounts of the CGUs are based on value-in-use calculations. Value in use was determined by discounting the future cash flows generated from the continuing use of the CGU.

The foregoing forecasts could differ from the results obtained over time; however, FEMSA Comercio prepares its estimates based on the current situation of each of the CGUs or group of CGUs.

The recoverable amounts are based on value in use. The value in use of CGUs is determined based on the method of discounted cash flows. The key assumptions used in projecting cash flows are: sales, expected annual long-term inflation, and the weighted average cost of capital ("WACC") used to discount the projected flows.

To determine the discount rate, FEMSA Comercio uses the WACC as determined for each of the cash generating units or group of the cash generating units in real terms and as described in following paragraphs.

The estimated discount rates to perform the IAS 36 "Impairment of assets", impairment test for each CGU or group of CGU consider market participants' assumptions. Market participants were selected taking into consideration the size, operations and characteristics of the business that are similar to those of FEMSA Comercio.

The discount rates represent the current market assessment of the risks specific to each CGU or group of CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the opportunity cost to a market participant, considering the specific circumstances of FEMSA Comercio and its operating segments and is derived from its WACC. The WACC takes into account both debt and cost of equity. The cost of equity is derived from the expected return on investment by Company's investors. The cost of debt is estimated based on the conditions that would asses a creditor in the market for credit to the CGUs.. Segment-specific risk is incorporated by applying beta factors which are evaluated annually based on publicly available market data.

Market participant assumptions are important because, not only do they include industry data for growth rates, management also assesses how the CGU's position, relative to its competitors, might change over the forecasted period.

The key assumptions used for the value-in-use calculations are as follows:

- Cash flows were projected based on actual operating results and the five-year business plan. FEMSA Comercio believes that this forecasted period is justified due to the non-current nature of the business and past experiences.
- Cash flows projected based on actual operating results and five-year business plan were calculated using a perpetual growth rate equal to the expected annual population growth, in order to calculate the terminal recoverable amount.
- A per CGU-specific Weighted Average Cost of Capital ("WACC") was applied as a hurdle rate to discount cash flows to get the recoverable amount of the units; the calculation assumes, size premium adjusting.

The key assumptions by CGU for impairment test as of December 31, 2016 were as follows:

CGU	Pre-tax WACC	Post-tax WACC	Expected Annual Long-Term Inflation 2016-2025	Expected Volume Growth Rates 2016-2025
South America (Health Division)	7.5%	7.3%	3%	13%

During 2015, the goodwill allocated to the Chile and Colombia CGU's was in the process of initial allocation of the purchase price.

The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on both external sources and internal sources (historical data). FEMSA Comercio consistently applied its methodology to determine CGU specific WACC's to perform its annual impairment testing.

Sensitivity to Changes in Assumptions

At December 31, 2016, FEMSA Comercio performed an additional impairment sensitivity calculation, taking into account an adverse change in post-tax WACC, according to the country risk premium, using for each country the relative standard deviation between equity and sovereign bonds and a sensitivity analysis of sales that would be affected considering a contraction in economic conditions as a result of lower purchasing power of customers, which based on management estimation considered to be reasonably possible an effect of 100 basis points in the sale's compound annual growth rate (CAGR), concluding that no impairment would be recognized.

CGU	Change in WACC	Change in Sales Growth CAGR (1)	Effect on Valuation
Health Division (South America)	+0.5%	-1.0%	Passes by 1.23x

(1) Compound Annual Growth Rate.

Note 13. Other Assets and Other Financial Assets

13.1 Other assets

		December 31, 2016		December 31, 2015
Agreement with customers	**Ps.**	**793**	Ps.	238
Long term prepaid advertising expenses		**392**		52
Guarantee deposits (1)		**3,757**		1,870
Prepaid bonuses		**103**		122
Advances to acquire property, plant and equipment		**173**		370
Recoverable taxes		**1,653**		1,181
Indemnifiable assets from business combinations (2)		**8,081**		-
Others		**1,230**		1,160
	Ps.	**16,182**	Ps.	4,993

(1) As it is customary in Brazil, the Company is required to collaterize tax, legal and labor contingencies by guarantee deposits including those related to business acquisitions (see Note 25.7).

(2) Corresponds to indemnifiable assets that are warranted by former Vonpar owners as per the share purchase agreement.

13.2 Other financial assets

		December 31, 2016		December 31, 2015
Non-current accounts receivable	**Ps.**	**511**	Ps.	478
Derivative financial instruments (see Note 20)		**14,729**		8,377
Other non-current financial assets		**105**		100
	Ps.	**15,345**	Ps.	8,955

As of December 31, 2016 and 2015, the fair value of long term accounts receivable amounted to Ps. 541 and Ps. 452, respectively. The fair value is calculated based on the discounted value of contractual cash flows whereby the discount rate is estimated using rates currently offered for receivable of similar amounts and maturities, which is considered to be level 2 in the fair value hierarchy.

Note 14. Balances and transactions with related parties and affiliated companies

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

The consolidated statements of financial positions and consolidated income statements include the following balances and transactions with related parties and affiliated companies:

		December 31, 2016		December 31, 2015
Balances				
Due from The Coca-Cola Company (see Note 7) [1] [8]	**Ps.**	**1,857**	Ps.	1,559
Balance with BBVA Bancomer, S.A. de C.V. [2]		**2,535**		2,683
Balance with Grupo Financiero Banorte, S.A. de C.V. [2]		**-**		1,178
Instituto Tecnológico y de Estudios Superiores de Monterrey, A.C. [3]		**128**		79
Due from Heineken [1] [3] [7]		**2,622**		1,739
Due from Grupo Estrella Azul [3]		**-**		69
Other receivables [1] [4]		**237**		1,352
Due to The Coca-Cola Company [5] [6] [8]	**Ps.**	**4,454**	Ps.	3,140
Due to BBVA Bancomer, S.A. de C.V. [5]		**395**		292
Due to Caffenio [6] [7]		**76**		108
Due to Heineken [6] [7]		**4,458**		2,588
Other payables [6]		**1,047**		981

(1) Presented within accounts receivable.

(2) Presented within cash and cash equivalents.

(3) Presented within other financial assets.

(4) Presented within other current financial assets.

(5) Recorded within bank loans and notes payable.

(6) Recorded within accounts payable.

(7) Associates.

(8) Non controlling interest.

Balances due from related parties are considered to be recoverable. Accordingly, for the years ended December 31, 2016 and 2015, there was no expense resulting from the uncollectibility of balances due from related parties.

Transactions		2016		2015		2014
Income:						
Services to Heineken [1]	**Ps.**	**3,153**	Ps.	3,396	Ps.	3,544
Logistic services to Grupo Industrial Saltillo, S.A. de C.V. [3]		**427**		407		313
Logistic services to Jugos del Valle [1]		**555**		564		513
Other revenues from related parties		**857**		644		670
Expenses:						
Purchase of concentrate from The Coca-Cola Company [2]	**Ps.**	**38,146**	Ps.	27,330	Ps.	28,084
Purchases of raw material and beer from Heineken [1]		**16,436**		14,467		15,133
Purchase of coffee from Caffenio [1]		**2,064**		1,774		1,404
Purchase of baked goods and snacks from Grupo Bimbo, S.A.B. de C.V. [3]		**4,184**		3,740		3,674
Advertisement expense paid to The Coca-Cola Company [2] [4]		**2,354**		1,316		1,167
Purchase of juices from Jugos del Valle, S.A.P.I. de C.V. [1]		**3,310**		3,082		2,592
Purchase of sugar from Promotora Industrial Azucarera, S.A. de C.V. [1]		**1,765**		1,236		1,020
Interest expense and fees paid to BBVA Bancomer, S.A. de C.V. [3]		**26**		68		99
Purchase of sugar from Beta San Miguel [3]		**1,349**		1,264		1,389
Purchase of sugar, cans and aluminum lids from Promotora Mexicana de Embotelladores, S.A. de C.V. [3]		**759**		587		567
Purchase of canned products from IEQSA [1]		**798**		731		591
Purchase of inventories to Leao Alimentos e Bebidas, L.T.D.A. [1]		**1,648**		3,359		2,891
Advertising paid to Grupo Televisa, S.A.B. [3]		**193**		175		158
Interest expense paid to Grupo Financiero Banamex, S.A. de C.V. [3]		**-**		-		2
Insurance premiums for policies with Grupo Nacional Provincial, S.A.B. [3]		**63**		58		140
Donations to Instituto Tecnológico y de Estudios Superiores de Monterrey, A.C. [3]		**1**		-		42
Donations to Fundación FEMSA, A.C. [3]		**62**		30		-
Donations to Difusión y Fomento Cultural, A.C. [3]		**49**		59		73
Interest expense paid to The Coca-Cola Company [2]		**-**		1		4
Other expenses with related parties		**617**		470		321

(1) Associates.

(2) Non controlling interest.

(3) Members of the board of directors in FEMSA participate in board of directors of this entity.

(4) Net of the contributions from The Coca-Cola Company of Ps. 4,518, Ps. 3,749 and Ps. 4,118, for the years ended in 2016, 2015 and 2014, respectively.

Commitments with related parties

Related Party	Commitment	Conditions
Heineken	Supply	Supply of all beer products in Mexico's OXXO stores. The contract may be renewed for five years or additional periods. At the end of the contract OXXO will not hold exclusive contract with another supplier of beer for the next 3 years. Commitment term, Jan 1st, 2010 to Jun 30, 2020.

The benefits and aggregate compensation paid to executive officers and senior management of the Company were as follows:

		2016		2015		2014
Short-term employee benefits paid	**Ps.**	**1,510**	Ps.	1,162	Ps.	964
Postemployment benefits		**39**		42		45
Termination benefits		**192**		63		114
Share based payments		**468**		463		283

Note 15. Balances and Transactions in Foreign Currencies

Assets, liabilities and transactions denominated in foreign currencies are those realized in a currency different than the functional currency of the Company. As of the end and for the years ended on December 31, 2016, 2015 and 2014, assets, liabilities and transactions denominated in foreign currencies, expressed in Mexican pesos (contractual amounts) are as follows:

	Assets				Liabilities		
Balances		Short-Term		Long-Term		Short-Term	Long- Term
As of December 31, **2016**							
U.S. dollars	**Ps.**	**17,796**	**Ps.**	**696**	**Ps.**	**4,540**	**Ps. 88,611**
Euros		**246**		**-**		**345**	**21,774**
Other currencies		**5**		**1,581**		**246**	**1,190**
Total	**Ps.**	**18,047**	**Ps.**	**2,277**	**Ps.**	**5,131**	**Ps. 111,575**
As of December 31, 2015							
U.S. dollars	Ps.	10,939	Ps.	630	Ps.	1,672	Ps. 71,123
Euros		3		-		23	-
Other currencies		-		1,173		152	41
Total	Ps.	10,942	Ps.	1,803	Ps.	1,847	Ps. 71,164

Transactions		Revenues		Other Revenues		Purchases of Raw Materials	Interest Expense		Consulting Fees		Assets Acquisitions		Other
For the year ended December 31, **2016**													
U.S. dollars	**Ps.**	**4,068**	**Ps.**	**1,281**	**Ps.**	**14,961**	**Ps. 3,173**	**Ps.**	**182**	**Ps.**	**407**	**Ps.**	**3,339**
Euros		**6**		**1,987**		**104**	**355**		**43**		**-**		**5**
Other currencies		**29**		**150**		**-**	**150**		**185**		**-**		**4**
Total	**Ps.**	**4,103**	**Ps.**	**3,418**	**Ps.**	**15,065**	**Ps. 3,678**	**Ps.**	**410**	**Ps.**	**407**	**Ps.**	**3,348**
For the year ended December 31, 2015													
U.S. dollars	Ps.	1,891	Ps.	472	Ps.	11,710	Ps. 1,973	Ps.	34	Ps.	75	Ps.	2,035
Euros		-		1		2	-		2		-		37
Other currencies		20		-		-	-		-		-		204
Total	Ps.	1,911	Ps.	473	Ps.	11,712	Ps. 1,973	Ps.	36	Ps.	75	Ps.	2,276
For the year ended December 31, 2014													
U.S. dollars	Ps.	2,817	Ps.	641	Ps.	15,006	Ps. 1,669	Ps.	14	Ps.	478	Ps.	2,068
Euros		7		-		80	15		-		5		13
Other currencies		178		-		10	-		-		-		4
Total	Ps.	3,002	Ps.	641	Ps.	15,096	Ps. 1,684	Ps.	14	Ps.	483	Ps.	2,085

Mexican peso exchange rates effective at the dates of the consolidated statements of financial position and at the issuance date of the Company's consolidated financial statements were as follows:

	December 31, 2016	December 31, 2015	February 24, 2016
U.S. dollar	**20.6640**	17.2065	19.9127
Euro	**21.7741**	18.7873	21.0364

Note 16. Employee Benefits

The Company has various labor liabilities for employee benefits in connection with pension, seniority and post-retirement medical benefits. Benefits vary depending upon the country where the individual employees are located. Presented below is a discussion of the Company's labor liabilities in Mexico, which comprise the substantial majority of those recorded in the consolidated financial statements.

During 2016 and 2014, Coca-Cola FEMSA settled its pension plan in Colombia and Brazil, respectively and consequently Coca-Cola FEMSA recognized the corresponding effects of the settlement as disclosed below. In Colombia, the settlement of the complementary pension plan was only for certain executive employees.

16.1 Assumptions

The Company annually evaluates the reasonableness of the assumptions used in its labor liability for post-employment and other non-current employee benefits computations.

Actuarial calculations for pension and retirement plans, seniority premiums and post-retirement medical benefits, as well as the associated cost for the period, were determined using the following long-term assumptions for non-hyperinflationary Mexico:

Mexico	December 31, 2016	December 31, 2015	December 31, 2014
Financial:			
Discount rate used to calculate the defined benefit obligation	**7.60%**	7.00%	7.00%
Salary increase	**4.50%**	4.50%	4.50%
Future pension increases	**3.50%**	3.50%	3.50%
Healthcare cost increase rate	**5.10%**	5.10%	5.10%
Biometric:			
Mortality (1)	**EMSSA 2009**	EMSSA 2009	EMSSA 2009
Disability (2)	**IMSS-97**	IMSS-97	IMSS-97
Normal retirement age	**60 años**	60 years	60 years
Employee turnover table (3)	**BMAR 2007**	BMAR 2007	BMAR 2007

Measurement date December:

(1) EMSSA. Mexican Experience of social security.

(2) IMSS. Mexican Experience of Instituto Mexicano del Seguro Social.

(3) BMAR. Actuary experience.

In Mexico the methodology used to determine the discount rate was the Yield or Internal Rate of Return ("IRR") which involves a yield curve. In this case, the expected rates of each period were taken from a yield curve of Mexican Federal Government Treasury Bond (known as CETES in Mexico) because there is no deep market in high quality corporate obligations in mexican pesos.

In Mexico upon retirement, the Company purchases an annuity for the employee, which will be paid according to the option chosen by the employee.

Based on these assumptions, the amounts of benefits expected to be paid out in the following years are as follows:

	Pension and Retirement Plans	Seniority Premiums	Post Retirement Medical Services	Total
2017	Ps. 465	Ps. 51	Ps. 18	Ps. 534
2018	307	36	19	362
2019	367	34	20	421
2020	457	33	21	511
2021	380	33	23	436
2022 to 2026	2,075	181	141	2,397

16.2 Balances of the liabilities for employee benefits

		December 31, 2016		December 31, 2015
Pension and Retirement Plans:				
Defined benefit obligation	**Ps.**	**5,702**	Ps.	5,308
Pension plan funds at fair value		**(2,216)**		(2,068)
Net defined benefit liability	**Ps.**	**3,486**	Ps.	3,240
Seniority Premiums:				
Defined benefit obligation	**Ps.**	**663**	Ps.	610
Seniority premium plan funds at fair value		**(102)**		(103)
Net defined benefit liability	**Ps.**	**561**	Ps.	507
Postretirement Medical Services:				
Defined benefit obligation	**Ps.**	**460**	Ps.	404
Medical services funds at fair value		**(60)**		(57)
Net defined benefit liability	**Ps.**	**400**	Ps.	347
Post-employment:				
Net defined benefit liability	**Ps.**	**-**	Ps.	135
Total employee benefits	**Ps.**	**4,447**	Ps.	4,229

16.3 Trust assets

Trust assets consist of fixed and variable return financial instruments recorded at market value, which are invested as follows:

Type of Instrument	December 31, 2016	December 31, 2015
Fixed return:		
Traded securities	**15%**	13%
Bank instruments	**4%**	6%
Federal government instruments of the respective countries	**63%**	63%
Variable return:		
Publicly traded shares	**18%**	18%
	100%	100%

In Mexico, the regulatory framework for pension plans is established in the Income Tax Law and its Regulations, the Federal Labor Law and the Mexican Social Security Institute Law. None of these laws establish minimum funding levels or a minimum required level of contributions.

In Mexico, the Income Tax Law requires that, in the case of private plans, certain notifications must be submitted to the authorities and a certain level of instruments must be invested in Federal Government securities among others.

The Company's various pension plans have a technical committee that is responsible for verifying the correct operation of the plan with regard to the payment of benefits, actuarial valuations of the plan, and supervise the trustee. The committee is responsible for determining the investment portfolio and the types of instruments the fund will be invested in. This technical committee is also responsible for reviewing the correct operation of the plans in all of the countries in which the Company has these benefits.

The risks related to the Company's employee benefit plans are primarily attributable to the plan assets. The Company's plan assets are invested in a diversified portfolio, which considers the term of the plan so as to invest in assets whose expected return coincides with the estimated future payments.

Since the Mexican Tax Law limits the plan asset investment to 10% for related parties, this risk is not considered to be significant for purposes of the Company's Mexican subsidiaries.

In Mexico, the Company's policy is to invest at least 30% of the fund assets in Mexican Federal Government instruments. Guidelines for the target portfolio have been established for the remaining percentage and investment decisions are made to comply with these guidelines insofar as the market conditions and available funds allow.

In Mexico, the amounts and types of securities of the Company in related parties included in portfolio fund are as follows:

		December 31, 2016		December 31, 2015
Debt:				
Cementos Mexicanos. S.A.B. de C.V.	**Ps.**	**7**	Ps.	7
Grupo Televisa, S.A.B. de C.V.		**45**		45
Grupo Financiero Banorte, S.A.B. de C.V.		**7**		12
El Puerto de Liverpool, S.A.B. de C.V.		**5**		5
Grupo Industrial Bimbo, S.A.B. de C. V.		**19**		3
Gentera, S.A.B. de C.V.		**8**		8
Capital:				
Alfa, S.A.B. de C.V.		**-**		13
Gruma, S.A.B. de C.V.		**-**		5
Grupo Industrial Bimbo, S.A.B. de C.V.		**6**		3

During the years ended December 31, 2016, 2015 and 2014, the Company did not make significant contributions to the plan assets and does not expect to make material contributions to the plan assets during the following fiscal year. The plan assets include securities of the Company in portfolio fund in amount of Ps. 114 and Ps. 113, as of December 31, 2016 and 2015, respectively.

16.4 Amounts recognized in the consolidated income statements and the consolidated statement of comprehensive income

	Income Statement								OCI [1]	
		Current Service Cost		Past Service Cost		Gain or Loss on Settlement or Curtailment		Net Interest on the Net Defined Benefit Liability		Remeasurements of the Net Defined Benefit Liability
December 31, 2016										
Pension and retirement plans	**Ps.**	**245**	**Ps.**	**45**	**Ps.**	**(61)**	**Ps.**	**224**	**Ps.**	**1,102**
Seniority premiums		**92**		**-**		**-**		**34**		**18**
Postretirement medical services		**22**		**-**		**-**		**24**		**151**
Total	**Ps.**	**359**	**Ps.**	**45**	**Ps.**	**(61)**	**Ps.**	**282**	**Ps.**	**1,271**
December 31, 2015										
Pension and retirement plans	Ps.	233	Ps.	3	Ps.	(120)	Ps.	212	Ps.	913
Seniority premiums		88		-		(9)		32		39
Postretirement medical services		16		-		-		23		119
Post-employment Venezuela		6		-		-		9		-
Total	Ps.	343	Ps.	3	Ps.	(129)	Ps.	276	Ps.	1,071
December 31, 2014										
Pension and retirement plans	Ps.	221	Ps.	54	Ps.	(193)	Ps.	279	Ps.	998
Seniority premiums		75		9		(27)		28		76
Postretirement medical services		10		-		-		16		74
Post-employment Venezuela		24		-		-		18		99
Total	Ps.	330	Ps.	63	Ps.	(220)	Ps.	341	Ps.	1,247

[1] Amounts accumulated in other comprehensive income as of the end of the period.

For the years ended December 31, 2016, 2015 and 2014, current service cost of Ps. 359, Ps. 343 and Ps. 330 has been included in the consolidated income statement as cost of goods sold, administration and selling expenses.

Remeasurements of the net defined benefit liability recognized in other comprehensive income are as follows:

		December 31, 2016		December 31, 2015		December 31, 2014
Amount accumulated in other comprehensive income as of the beginning of the period, net of tax	**Ps.**	**810**	Ps.	942	Ps.	585
Actuarial losses arising from exchange rates		**123**		(12)		(173)
Remeasurements during the year, net of tax		**288**		(46)		318
Actuarial gains arising from changes in demographic assumptions		**-**		-		41
Actuarial gains and (losses) arising from changes in financial assumptions		**(255)**		(74)		171
Amount accumulated in other comprehensive income as of the end of the period, net of tax	**Ps.**	**966**	Ps.	810	Ps.	942

Remeasurements of the net defined benefit liability include the following:

- The return on plan assets, excluding amounts included in net interest expense.
- Actuarial gains and losses arising from changes in demographic assumptions.
- Actuarial gains and losses arising from changes in financial assumptions.

16.5 Changes in the balance of the defined benefit obligation for post-employment

		December 31, 2016		December 31, 2015		December 31, 2014
Pension and Retirement Plans:						
Initial balance	**Ps.**	**5,308**	Ps.	5,270	Ps.	4,866
Current service cost		**245**		233		221
Past service cost		**45**		3		54
Interest expense		**369**		353		353
Settlement		**-**		-		(482)
Effect on curtailment		**(61)**		(120)		-
Remeasurements of the net defined benefit obligation		**(67)**		(154)		378
Foreign exchange loss (gain)		**150**		39		42
Benefits paid		**(287)**		(316)		(162)
Ending balance	**Ps.**	**5,702**	Ps.	5,308	Ps.	5,270
Seniority Premiums:						
Initial balance	**Ps.**	**610**	Ps.	563	Ps.	475
Current service cost		**93**		88		75
Past service cost		**-**		-		9
Interest expense		**41**		38		33
Settlement		**-**		-		(27)
Effect on curtailment		**-**		(9)		-
Remeasurements of the net defined benefit obligation		**(43)**		(34)		29
Benefits paid		**(55)**		(45)		(37)
Acquisitions		**17**		9		6
Ending balance	**Ps.**	**663**	Ps.	610	Ps.	563
Postretirement Medical Services:						
Initial balance	**Ps.**	**404**	Ps.	338	Ps.	267
Current service cost		**22**		16		10
Interest expense		**27**		26		20
Remeasurements of the net defined benefit obligation		**30**		44		60
Benefits paid		**(23)**		(20)		(19)
Ending balance	**Ps.**	**460**	Ps.	404	Ps.	338
Post-employment:						
Initial balance	**Ps.**	**135**	Ps.	194	Ps.	743
Current service cost		**-**		5		24
Certain liability cost		**-**		73		-
Interest expense		**-**		-		18
Reclasification to certain liability cost		**(135)**		-		54
Foreign exchange (gain)		**-**		(137)		(638)
Benefits paid		**-**		-		(7)
Ending balance	**Ps.**	**-**	Ps.	135	Ps.	194

16.6 Changes in the balance of plan assets

		December 31, 2016		December 31, 2015		December 31, 2014
Total Plan Assets:						
Initial balance	**Ps.**	**2,228**	Ps.	2,158	Ps.	2,371
Actual return on trust assets		**40**		65		133
Foreign exchange loss (gain)		**4**		7		(8)
Life annuities		**107**		61		197
Benefits paid		**(1)**		(63)		-
Effect due to settlement		**-**		-		(535)
Ending balance	**Ps.**	**2,378**	Ps.	2,228	Ps.	2,158

As a result of the Company's investments in life annuities plan, management does not expect it will need to make material contributions to plan assets in order to meet its future obligations.

16.7 Variation in assumptions

The Company decided that the relevant actuarial assumptions that are subject to sensitivity and valuated through the projected unit credit method, are the discount rate, the salary increase rate and healthcare cost increase rate. The reasons for choosing these assumptions are as follows:

- Discount rate: The rate that determines the value of the obligations over time.
- Salary increase rate: The rate that considers the salary increase which implies an increase in the benefit payable.
- Healthcare cost increase rate: The rate that considers the trends of health care costs which implies an impact on the postretirement medical service obligations and the cost for the year.

The following table presents the amount of defined benefit plan expense and OCI impact in absolute terms of a variation of 0.5% in the assumptions on the net defined benefit liability associated with the Company's defined benefit plans. The sensitivity of this 0.5% on the significant actuarial assumptions is based on a projected long-term discount rates to Mexico and a yield curve projections of long-term sovereign bonds:

+0.5%:

	Income Statement				OCI [1]
Discount rate used to calculate the defined benefit obligation and the net interest on the net defined benefit liability	**Current Service Cost**	**Past Service Cost**	**Gain or Loss on Settlement or Curtailment**	**Effect of Net Interest on the Net Defined Benefit Liability (Asset)**	**Remeasurements of the Net Defined Benefit Liability (Asset)**
Pension and retirement plans	Ps. 236	Ps. 43	Ps. (57)	Ps. 217	Ps. 648
Seniority premiums	89	-	-	34	(22)
Postretirement medical services	20	-	-	23	126
Post-employment	-	-	-	-	-
Total	Ps. 345	Ps. 43	Ps. (57)	Ps. 274	Ps. 752
Expected salary increase					
Pension and retirement plans	Ps. 257	Ps. 48	Ps. (66)	Ps. 240	Ps. 1,043
Seniority premiums	100	1	-	37	69
Postretirement medical services	21	-	-	24	151
Post-employment	-	-	-	-	-
Total	Ps. 378	Ps. 49	Ps. (66)	Ps. 301	Ps. 1,263
Assumed rate of increase in healthcare costs					
Postretirement medical services	Ps. 22	Ps. -	Ps. -	Ps. 25	Ps. 193

-0.5%:

Discount rate used to calculate the defined benefit obligation and the net interest on the net defined benefit liability	**Current Service Cost**	**Past Service Cost**	**Gain or Loss on Settlement or Curtailment**	**Effect of Net Interest on the Net Defined Benefit Liability (Asset)**	**Remeasurements of the Net Defined Benefit Liability (Asset)**
Pension and retirement plans	Ps. 258	Ps. 50	Ps. (66)	Ps. 227	Ps. 1,101
Seniority premiums	99	1	-	35	48
Postretirement medical services	22	-	-	25	187
Post-employment	-	-	-	-	-
Total	Ps. 379	Ps. 51	Ps. (66)	Ps. 287	Ps. 1,336
Expected salary increase					
Pension and retirement plans	Ps. 236	Ps. 44	Ps. (60)	Ps. 205	Ps. 703
Seniority premiums	89	-	-	32	(24)
Postretirement medical services	21	-	-	24	151
Post-employment	-	-	-	-	-
Total	Ps. 346	Ps. 44	Ps. (60)	Ps. 261	Ps. 830
Assumed rate of increase in healthcare costs					
Postretirement medical services	Ps. 20	Ps. -	Ps. -	Ps. 23	Ps. 131

[1] Amounts accumulated in other comprehensive income as of the end of the period.

16.8 Employee benefits expense

For the years ended December 31, 2016, 2015 and 2014, employee benefits expenses recognized in the consolidated income statements as cost of goods sold, administrative and selling expenses are as follows:

		2016		2015		2014
Wages and salaries	**Ps.**	**39,459**	Ps.	39,459	Ps.	35,659
Social security costs		**6,114**		6,114		5,872
Employee profit sharing		**1,506**		1,243		1,138
Post employment benefits		**625**		493		514
Share-based payments		**468**		463		283
Termination benefits		**503**		503		431
	Ps.	**48,675**	Ps.	48,275	Ps.	43,897

Note 17. Bonus Programs

17.1 Quantitative and qualitative objectives

The bonus program for executives is based on complying with certain goals established annually by management, which include quantitative and qualitative objectives, and special projects.

The quantitative objectives represent approximately 50% of the bonus, and are based on the Economic Value Added ("EVA") methodology. The objective established for the executives at each entity is based on a combination of the EVA generated per entity and the EVA generated by the Company, calculated at approximately 70% and 30%, respectively. The qualitative objectives and special projects represent the remaining 50% of the annual bonus and are based on the critical success factors established at the beginning of the year for each executive.

The bonus amount is determined based on each eligible participant's level of responsibility and based on the EVA generated by the applicable business unit the employee works for. This formula is established by considering the level of responsibility within the organization, the employees' evaluation and competitive compensation in the market. The bonus is granted to the eligible employee on an annual basis and after withholding applicable taxes.

17.2 Share-based payment bonus plan

The Company has implemented a stock incentive plan for the benefit of its senior executives. As discussed above, this plan uses as its main evaluation metric the EVA. Under the EVA stock incentive plan, eligible employees are entitled to receive a special annual bonus (fixed amount), to be paid in shares of FEMSA or Coca-Cola FEMSA, as applicable or stock options (the plan considers providing stock options to employees; however, since inception only shares of FEMSA or Coca-Cola FEMSA have been granted).

The plan is managed by FEMSA's chief executive officer (CEO), with the support of the board of directors, together with the CEO of the respective sub-holding company. FEMSA's Board of Directors is responsible for approving the plan's structure, and the annual amount of the bonus. Each year, FEMSA's CEO in conjunction with the Evaluation and Compensation Committee of the board of directors and the CEO of the respective sub-holding company determine the employees eligible to participate in the plan and the bonus formula to determine the number of shares to be received. Until 2015 the shares were vested ratably over a six year period, beginning with January 1, 2016 onwards they were ratably vest over a four year period, with retrospective effects. Early December 31, 2015, the Company and the eligible employee agree to the share-based payment arrangement, being when it and the counterparty have a shared understanding of the terms and conditions of the arrangement. FEMSA accounts for its share-based payment bonus plan as an equity-settled share based payment transaction as it will ultimately settle its obligations with its employees by issuing its own shares or those of its subsidiary Coca-Cola FEMSA.

The Company contributes the individual employee's special bonus (after taxes) in cash to the Administrative Trust (which is controlled and consolidated by FEMSA), who then uses the funds to purchase FEMSA or Coca-Cola FEMSA shares (as instructed by the Administrative Trust's Technical Committee), which are then allocated to such employee. The Administrative Trust tracks the individual employees' account balance. FEMSA created the Administrative Trust with the objective of conducting the purchase of FEMSA and Coca-Cola FEMSA shares by each of its subsidiaries with eligible executives participating in the stock incentive plan. The Administrative Trust's objectives are to acquire FEMSA shares, or shares of Coca-Cola FEMSA and to manage the shares granted to the individual employees based on instructions set forth by the Technical Committee. Once the shares are acquired following the Technical Committee's instructions, the Administrative Trust assigns to each participant their respective rights. As the trust is controlled and therefore consolidated by FEMSA, shares purchased in the market and held within the Administrative Trust are presented as treasury stock (as it relates to FEMSA's shares) or as a reduction of the noncontrolling interest (as it relates to Coca-Cola FEMSA's shares) in the consolidated statement of changes in equity, on the line issuance (repurchase) of shares associated with share-based payment plans. Should an employee leave prior to their shares vesting, they would lose the rights to such shares, which would then remain within the Administrative Trust and be able to be reallocated to other eligible employees as determined by the Company. The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of compliance with the goals established every year. For the years ended December 31, 2016, 2015 and 2014, the compensation expense recorded in the consolidated income statement amounted to Ps. 468, Ps. 463 and Ps. 283, respectively.

All shares held in the Administrative Trust are considered outstanding for diluted earnings per share purposes and dividends on shares held by the trust are charged to retained earnings.

As of December 31, 2016 and 2015, the number of shares held by the trust associated with the Company's share based payment plans is as follows:

	Number of Shares			
	FEMSA UBD		KOFL	
	2016	2015	**2016**	2015
Beginning balance	**4,246,792**	4,763,755	**1,160,311**	1,298,533
Shares acquired by the administrative trust to employees	**2,375,196**	1,491,330	**695,487**	466,036
Shares released from administrative trust to employees upon vesting	**(2,996,817)**	(2,008,293)	**(787,471)**	(604,258)
Forfeitures	**-**	-	**-**	-
Ending balance	**3,625,171**	4,246,792	**1,068,327**	1,160,311

The fair value of the shares held by the trust as of the end of December 31, 2016 and 2015 was Ps. 712 and Ps. 830, respectively, based on quoted market prices of those dates.

Note 18. Bank Loans and Notes Payables

	At December 31, (1)								
(in millions of Mexican pesos)	2017	2018	2019	2020	2021	2022 and Thereafter	Carrying Value at December 31, **2016**	Fair Value at December 31, **2016**	Carrying Value at December 31, 2015 (1)
Short-term debt:									
Fixed rate debt:									
Colombian pesos									
Bank loans	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	**Ps. -**	**Ps. -**	Ps. 219
Interest rate	-	-	-	-	-	-	**-**	**-**	6.5%
Argentine pesos									
Bank loans	644	-	-	-	-	-	**644**	**669**	165
Interest rate	32.0%	-	-	-	-	-	**32.0%**	**-**	26.2%
Chilean pesos									
Bank loans	338	-	-	-	-	-	**338**	**338**	1,442
Interest rate	4.3%	-	-	-	-	-	**4.3%**	**-**	4.2%
Finance leases	-	-	-	-	-	-	**-**	**-**	10
Interest rate	-	-	-	-	-	-	**-**	**-**	2.4%
U.S. dollars									
Bank loans	206	-	-	-	-	-	**206**	**208**	-
Interest rate	3.4%	-	-	-	-	-	**3.4%**	**-**	-
Variable rate debt:									
Colombian pesos									
Bank loans	723	-	-	-	-	-	**723**	**720**	235
Interest rate	9.1%	-	-	-	-	-	**9.1%**	**-**	8.2%
Brazilian reais									
Bank loans	-	-	-	-	-	-	**-**	**-**	168
Interest rate	-	-	-	-	-	-	**-**	**-**	14.8%
Chilean pesos									
Bank loans	1	-	-	-	-	-	**1**	**1**	-
Interest rate	10.0%	-	-	-	-	-	**10.0%**	**-**	-
Total short-term debt	Ps. 1,912	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	**Ps. 1,912**	**Ps. 1,936**	Ps. 2,239

(in millions of Mexican pesos)	At December 31, [1] 2017	2018	2019	2020	2021	2022 and Thereafter	Carrying Value at December 31, 2016	Fair Value at December 31, 2016	Carrying Value at December 31, 2015[1]
Long-term debt:									
Fixed rate debt:									
Euro									
Senior unsecured notes	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	Ps. 21,627	**Ps. 21,627**	**Ps. 22,178**	Ps. -
Interest rate	-	-	-	-	-	1.8%	**1.8%**	**-**	-
U.S. dollars									
Yankee bond	-	20,625	-	10,297	-	30,781	**61,703**	**64,230**	51,333
Interest rate	-	2.4%	-	4.6%	-	4.4%	**3.8%**	**-**	3.8%
Bank of NY (FEMSA USD 2023)	-	-	-	-	-	6,117	**6,117**	**5,953**	5,068
Interest rate [1]	-	-	-	-	-	2.9%	**2.9%**	**-**	2.9%
Bank of NY (FEMSA USD 2043)	-	-	-	-	-	14,128	**14,128**	**13,749**	11,675
Interest rate [1]	-	-	-	-	-	4.4%	**4.4%**	**-**	4.4%
Finance leases	7	6	5	2	-	-	**20**	**20**	-
Interest rate [1]	4.0%	4.0%	3.8%	4.0%	-	-	**3.9%**	**-**	-
Mexican pesos									
Units of investment (UDIs)	3,245	-	-	-	-	-	**3,245**	**3,245**	3,385
Interest rate	4.2%	-	-	-	-	-	**4.2%**	**-**	4.2%
Domestic senior notes	-	-	-	-	2,497	7,494	**9,991**	**8,983**	9,989
Interest rate	-	-	-	-	8.3%	5.5%	**6.2%**	**-**	6.2%
Brazilian reais									
Bank loans	282	227	106	50	41	36	**742**	**714**	819
Interest rate	4.7%	5.1%	7.4%	5.1%	5.1%	5.1%	**5.3%**	**-**	6.0%
Finance leases	-	-	-	-	-	-	**-**	**-**	460
Interest rate	-	-	-	-	-	-	**-**	**-**	4.6%
Notes payable	-	-	7,022	-	-	-	**7,022**	**6,547**	-
Interest rate	-	-	0.4%	-	-	-	**0.4%**	**-**	-
Argentine pesos									
Bank loans	-	-	-	-	-	-	**-**	**-**	18
Interest rate	-	-	-	-	-	-	**-**	**-**	15.3%
Chilean pesos									
Bank loans	125	39	-	-	-	-	**164**	**164**	232
Interest rate	6.8%	7.9%	-	-	-	-	**7.0%**	**-**	7.5%
Finance leases	25	25	23	21	20	-	**114**	**114**	92
Interest rate	3.5%	3.6%	3.5%	3.3%	3.2%	-	**3.4%**	**-**	3.4%
Colombian pesos									
Finance leases	-	758	-	-	-	-	**758**	**750**	-
Interest rate	-	9.6%	-	-	-	-	**9.6%**	**-**	-
Subtotal	Ps. 3,684	Ps. 21,680	Ps. 7,156	Ps. 10,370	Ps. 2,558	Ps. 80,183	**Ps. 125,631**	**Ps. 126,647**	Ps. 83,071

[1] All interest rates shown in this table are weighted average contractual annual rates.

(in millions of Mexican pesos)	At December 31, [1] 2017	2018	2019	2020	2021	2022 and Thereafter	Carrying Value at December 31, 2016	Fair Value at December 31, 2016	Carrying Value at December 31, 2015[1]
Variable rate debt:									
U.S. dollars									
Bank loans	Ps. -	Ps. -	Ps. -	Ps. -	Ps. 4,218	Ps. -	**Ps. 4,218**	**Ps. 4,299**	Ps. -
Interest rate [1]	-	-	-	-	1.6%	-	**1.6%**	**-**	-
Mexican pesos									
Domestic senior notes	-	-	-	-	-	-	**-**	**-**	2,496
Interest rate [1]	-	-	-	-	-	-	**-**	**-**	3.6%
Argentine pesos									
Bank loans	40	-	-	-	-	-	**40**	**40**	123
Interest rate	27.8%	-	-	-	-	-	**27.8%**	**-**	32.2%
Brazilian reais									
Bank loans	483	451	410	308	88	124	**1,864**	**1,776**	584
Interest rate	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	**5.5%**	**-**	10.1%
Notes payable	10	10	6	-	-	-	**26**	**23**	-
Interest rate	0.4%	0.4%	0.4%	-	-	-	**0.4%**	**-**	-
Colombian pesos									
Bank loans	793	413	-	-	-	-	**1,206**	**1,213**	1,176
Interest rate	9.1%	10.0%	-	-	-	-	**9.6%**	**-**	6.9%
Chilean pesos									
Bank loans	359	477	641	1,071	706	1,097	**4,351**	**4,350**	2,175
Interest rate	3.9%	3.9%	3.8%	3.8%	3.7%	3.6%	**3.7%**	**-**	6.0%
Subtotal	Ps. 1,685	Ps. 1,351	Ps. 1,057	Ps. 1,379	Ps. 5,012	Ps. 1,221	**Ps. 11,705**	**Ps. 11,701**	Ps. 6,554
Total long-term debt	Ps. 5,369	Ps. 23,031	Ps. 8,213	Ps. 11,749	Ps. 7,570	Ps. 81,404	**Ps. 137,336**	**Ps. 138,348**	Ps. 89,625
Current portion of long term debt							**(5,369)**		(3,656)
							Ps. 131,967		Ps. 85,969

[1] All interest rates shown in this table are weighted average contractual annual rates.

Hedging Derivative Financial Instruments [1]	2017	2018	2019	2020	2021	2022 and Thereafter	Total 2016	Total 2015
				(notional amounts in millions of Mexican pesos)				
Cross currency swaps:								
Units of investments to Mexican pesos and variable rate:								
Fixed to variable [2]	Ps. 2,500	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	**Ps. 2,500**	Ps. 2,500
Interest pay rate	5.9%	-	-	-	-	-	**5.9%**	3.4%
Interest receive rate	4.2%	-	-	-	-	-	**4.2%**	4.2%
U.S. dollars to Mexican pesos								
Fixed to variable [3]	-	-	-	-	-	11,403	**11,403**	11,403
Interest pay rate	-	-	-	-	-	7.4%	**7.4%**	4.8%
Interest receive rate	-	-	-	-	-	4.0%	**4.0%**	4.0%
Variable to fixed	-	9,092	-	-	-	-	**9,092**	7,571
Interest pay rate	-	6.0%	-	-	-	-	**6.0%**	3.5%
Interest receive rate	-	2.4%	-	-	-	-	**2.4%**	2.4%
Fixed to fixed	-	2,376	-	10,332	-	6,743	**19,451**	1,267
Interest pay rate	-	6.4%	-	9.1%	-	9.1%	**8.8%**	5.7%
Interest receive rate	-	2.4%	-	4.6%	-	3.8%	**4.1%**	2.9%
U.S. dollars to Brazilian reais								
Fixed to variable	207	9,195	7,022	4,786	-	-	**21,210**	5,592
Interest pay rate	14.3%	12.6%	10.1%	12.9%	-	-	**11.9%**	12.7%
Interest receive rate	3.4%	2.5%	0.4%	2.9%	-	-	**1.9%**	2.7%
Variable to variable	-	18,598	-	-	4,236	-	**22,834**	17,551
Interest pay rate	-	12.6%	-	-	11.7%	-	**12.4%**	12.6%
Interest receive rate	-	2.1%	-	-	1.5%	-	**2.0%**	2.1%
Chilean pesos								
Variable to fixed	-	-	-	827	-	-	**827**	1,097
Interest pay rate	-	-	-	6.9%	-	-	**6.9%**	6.9%
Interest receive rate	-	-	-	6.2%	-	-	**6.2%**	6.8%
Interest rate swap:								
Mexican pesos								
Variable to fixed rate:	-	-	77	-	727	2,787	**3,591**	1,273
Interest pay rate	-	-	6.5%	-	7.6%	4.8%	**6.4%**	7.0%
Interest receive rate	-	-	4.7%	-	4.7%	4.1%	**5.1%**	5.5%
Variable to fixed rate [2]:								
Interest pay rate	5.9%	-	-	-	-	-	**5.9%**	5.2%
Interest receive rate	6.0%	-	-	-	-	-	**6.0%**	3.4%
Variable to fixed rate [3]:								
Interest pay rate	-	-	-	-	-	7.2%	**7.2%**	7.2%
Interest receive rate	-	-	-	-	-	7.4%	**7.4%**	4.8%

(1) All interest rates shown in this table are weighted average contractual annual rates.

(2) Interest rate swaps with a notional amount of Ps. 1,250 that receive a variable rate of 6.0% and pay a fixed rate of 5.9%; joined with a cross currency swap of the same notional amount, which covers units of investments to Mexican pesos, that receives a fixed rate of 4.2% and pays a variable rate of 5.9%.

(3) Interest rate swaps with a notional amount of Ps. 11,403 that receive a variable rate of 7.4% and pay a fixed rate of 7.2%; joined with a cross currency swap, which covers U.S. dollars to Mexican pesos, that receives a fixed rate of 4.0% and pay a variable rate of 7.4%.

For the years ended December 31, 2016, 2015 and 2014, the interest expense is comprised as follows:

	2016	2015	2014
Interest on debts and borrowings	**Ps. 5,694**	Ps. 4,586	Ps. 3,992
Capitalized interest	**(32)**	(60)	(117)
Finance charges for employee benefits	**282**	276	341
Derivative instruments	**3,519**	2,894	2,413
Finance operating charges	**183**	79	66
Finance charges payable under finance leases	**-**	2	6
	Ps. 9,646	Ps. 7,777	Ps. 6,701

In March 14, 2016, the Company issued long-term debt on the Irish Stock Exchange (ISE) in the amount of €1,000, which was made up of senior notes with a maturity of 7 years, a fixed interest rate of 1.75% and a spread of 155 basis points over the relevant benchmark mid-swap, for a total yield of 1.824%. The Company has designated this non-derivative financial liability as a hedge on the net investment in Heineken. For the year ended December 31, 2016, a foreing exchange loss, net of tax, has been recognized as part of the exchange differences on translation of foreign operations within the cumulative other comprehensive income of Ps. 1,443.

On May 7, 2013, the Company issued long-term debt on the NYSE in the amount of $1,000, which was made up of senior notes of $300 with a maturity of 10 years and a fixed interest rate of 2.875%; and senior notes of $700 with a maturity of 30 years and a fixed interest rate of 4.375%. After the issuance, the Company contracted cross-currency swaps to reduce its exposure to risk of exchange rate and interest rate fluctuations associated with this issuance, see Note 20.

On December 7, 2007, the Company issued domestic senior notes in the amount of 637,587,000 investment units (Ps. 2,500 nominal amount), with a maturity date on November 24, 2017 and a fixed interest rate.

Coca-Cola FEMSA has the following debt bonds: a) registered with the Mexican stock exchange: i) Ps. 2,500 (nominal amount) with a maturity date in 2021 and fixed interest rate of 8.27% and ii) Ps. 7,500 (nominal amount) with a maturity date in 2023 and fixed interest rate of 5.46%; and b) registered with the SEC: i) Senior notes of U.S. $500 with interest at a fixed rate of 4.63% and maturity date on February 15, 2020, ii) Senior notes of U.S. $1,000 with interest at a fixed rate of 2.38% and maturity date on November 26, 2018, iii) Senior notes of U.S. $900 with interest at a fixed rate of 3.88% and maturity date on November 26, 2023 and iv) Senior notes of U.S. $600 with interest at a fixed rate of 5.25% and maturity date on November 26, 2043 all of which are guaranteed by Coca-Cola FEMSA subsidiaries: Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Controladora Interamericana de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V (as successor guarantor of Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V.) and Yoli de Acapulco, S. de R.L. de C.V. ("Guarantors").

The Company has financing from different institutions under agreements that stipulate different restrictions and covenants, which mainly consist of maximum levels of leverage and capitalization as well as minimum consolidated net worth and debt and interest coverage ratios. As of the date of these consolidated financial statements, the Company was in compliance with all restrictions and covenants contained in its financing agreements.

In December 2015, Coca-Cola FEMSA prepaid in full outstanding Bank loans denominated in U.S. million dollars for a total amount of $450 (nominal amount).

Note 19. Other Income and Expenses

		2016		2015		2014
Gain on sale of shares	**Ps.**	**-**	Ps.	14	Ps.	-
Gain on sale of long-lived assets		**170**		249		-
Gain on sale of other assets		**-**		-		276
Sale of waste material		**50**		41		44
Write off-contingencies (see Note 25.5)		**329**		-		475
Recoveries from previous years		**466**		16		89
Insurance rebates		**10**		17		18
Others		**132**		86		196
Other income	**Ps.**	**1,157**	Ps.	423	Ps.	1,098
Contingencies associated with prior acquisitions or disposals (1)	**Ps.**	**1,582**	Ps.	93	Ps.	-
Loss son sale of shares		**8**		-		-
Loss on sale of long-lived assets		**-**		-		7
Loss on sale of other assets		**159**		-		-
Impairment of long-lived assets		**-**		134		145
Disposal of long-lived assets (2)		**238**		416		153
Foreign exchange losses related to operating activities		**2,370**		917		147
Non-income taxes from Colombia		**53**		30		69
Severance payments		**98**		285		277
Donations		**203**		362		172
Legal fees and other expenses from past acquisitions		**241**		223		31
Other		**957**		281		276
Other expenses	**Ps.**	**5,909**	Ps.	2,741	Ps.	1,277

(1) Contingencies amounted of Ps. 764 associated with Heineken (see Note 25.5.1).

(2) Charges related to fixed assets retirement from ordinary operations and other long-lived assets.

Note 20. Financial Instruments

Fair Value of Financial Instruments

The Company measures the fair value of its financial assets and liabilities classified as level 2 applying the income approach method, which estimates the fair value based on expected cash flows discounted to net present value. The following table summarizes the Company's financial assets and liabilities measured at fair value, as of December 31, 2016 and 2015:

	December 31, 2016		December 31, 2015	
	Level 1	Level 2	Level 1	Level 2
Derivative financial instrument (current asset)	**374**	**1,543**	-	523
Derivative financial instrument (non-current asset)	**-**	**14,729**	-	8,377
Derivative financial instrument (current liability)	**-**	**264**	270	89
Derivative financial instrument (non-current liability)	**-**	**6,403**	-	277

20.1 Total debt

The fair value of bank loans is calculated based on the discounted value of contractual cash flows whereby the discount rate is estimated using rates currently offered for debt of similar amounts and maturities, which is considered to be level 2 in the fair value hierarchy. The fair value of the Company's publicly traded debt is based on quoted market prices as of December 31, 2016 and 2015, which is considered to be level 1 in the fair value hierarchy.

		2016		2015
Carrying value	**Ps.**	**139,248**	Ps.	91,864
Fair value		**140,284**		91,551

20.2 Interest rate swaps

The Company uses interest rate swaps to offset the interest rate risk associated with its borrowings, pursuant to which it pays amounts based on a fixed rate and receives amounts based on a floating rate. These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value. The fair value is estimated using formal technical models. The valuation method involves discounting to present value the expected cash flows of interest, calculated from the rate curve of the cash flow currency, and expresses the net result in the reporting currency. Changes in fair value are recorded in cumulative other comprehensive income, net of taxes until such time as the hedged amount is recorded in the consolidated income statements.

At December 31, 2016, the Company has the following outstanding interest rate swap agreements:

Maturity Date		Notional Amount		Fair Value Liability December 31, 2016		Fair Value Asset December 31, 2016
2017	**Ps.**	**1,250**	**Ps.**	**-**	**Ps.**	**10**
2019		**77**		**(4)**		**-**
2021		**727**		**(87)**		**-**
2022		**929**		**(35)**		**-**
2023		**13,261**		**(73)**		**1,028**

At December 31, 2015, the Company has the following outstanding interest rate swap agreements:

Maturity Date		Notional Amount		Fair Value Liability December 31, 2015		Fair Value Asset December 31, 2015
2017	Ps.	1,250	Ps.	(36)	Ps.	-
2019		76		(3)		-
2021		623		(62)		-
2022		574		(9)		-
2023		11,403		-		89

The net effect of expired contracts treated as hedges are recognized as interest expense within the consolidated income statements.

20.3 Forward agreements to purchase foreign currency

The Company has entered into forward agreements to reduce its exposure to the risk of exchange rate fluctuations between the Mexican peso and other currencies. Foreign exchange forward contracts measured at fair value are designated hedging instruments in cash flow hedges of forecast inflows in Euros and forecast purchases of raw materials in U.S. dollars. These forecast transactions are highly probable.

These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value which is determined based on prevailing market exchange rates to terminate the contracts at the end of the period. The price agreed in the instrument is compared to the current price of the market forward currency and is discounted to present value of the rate curve of the relevant currency. Changes in the fair value of these forwards are recorded as part of cumulative other comprehensive income, net of taxes. Net gain/loss on expired contracts is recognized as part of cost of goods sold when the raw material is included in sale transaction, and as a part of foreign exchange when the inflow in Euros are received.

At December 31, 2016, the Company had the following outstanding forward agreements to purchase foreign currency:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2016	Fair Value Asset December 31, 2016
2017	**Ps. 8,265**	**Ps. (247)**	**Ps. 364**

At December 31, 2015, the Company had the following outstanding forward agreements to purchase foreign currency:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2015	Fair Value Asset December 31, 2015
2016	Ps. 6,735	Ps. (84)	Ps. 383

20.4 Options to purchase foreign currency

The Company has executed call option and collar strategies to reduce its exposure to the risk of exchange rate fluctuations. A call option is an instrument that limits the loss in case of foreign currency depreciation. A collar is a strategy that combines call and put options, limiting the exposure to the risk of exchange rate fluctuations in a similar way as a forward agreement.

These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value which is determined based on prevailing market exchange rates to terminate the contracts at the end of the period. Changes in the fair value of these options, corresponding to the intrinsic value, are initially recorded as part of "cumulative other comprehensive income". Changes in the fair value, corresponding to the extrinsic value, are recorded in the consolidated income statements under the caption "market value gain/ (loss) on financial instruments," as part of the consolidated net income. Net gain/(loss) on expired contracts including the net premium paid, is recognized as part of cost of goods sold when the hedged item is recorded in the consolidated income statements.

At December 31, 2015, the Company paid a net premium of Ps. 75 millions for the following outstanding call options to purchase foreign currency:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2015	Fair Value Asset December 31, 2015
2016	Ps. 1,612	Ps. -	Ps. 65

20.5 Cross-currency swaps

The Company has contracted for a number of cross-currency swaps to reduce its exposure to risks of exchange rate and interest rate fluctuations associated with its borrowings denominated in U.S. dollars and other foreign currencies. Cross-Currency swaps contracts are designated as hedging instruments through which the Company changes the debt profile to its functional currency to reduce exchange exposure.

These instruments are recognized in the consolidated statement of financial position at their estimated fair value which is estimated using formal technical models. The valuation method involves discounting to present value the expected cash flows of interest, calculated from the rate curve of the cash foreign currency, and expresses the net result in the reporting currency. These contracts are designated as financial instruments at fair value through profit or loss. The fair values changes related to those cross currency swaps are recorded under the caption "market value gain (loss) on financial instruments," net of changes related to the long-term liability, within the consolidated income statements.

The Company has cross-currency contracts designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value. Changes in fair value are recorded in cumulative other comprehensive income, net of taxes until such time as the hedge amount is recorded in the consolidated income statement.

At December 31, 2016, the Company had the following outstanding cross currency swap agreements:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2016	Fair Value Asset December 31, 2016
2017	**Ps. 2,707**	**Ps. (10)**	**Ps. 1,165**
2018	**39,262**	**(4,837)**	**3,688**
2019	**7,022**	**(265)**	**-**
2020	**19,474**	**(842)**	**798**
2021	**5,076**	**(128)**	**28**
2023	**12,670**	**-**	**9,057**
2026	**925**	**(131)**	**-**
2027	**5,476**	**-**	**125**

At December 31, 2015, the Company had the following outstanding cross currency swap agreements:

Maturity Date	Notional Amount	Fair Value Liability 2015	Fair Value Asset December 31, 2015
2017	Ps. 2,711	Ps. -	Ps. 1,159
2018	30,714	-	2,216
2020	4,034	(116)	-
2023	12,670	-	4,859

20.6 Commodity price contracts

The Company has entered into various commodity price contracts to reduce its exposure to the risk of fluctuation in the costs of certain raw material. The fair value is estimated based on the market valuations to terminate the contracts at the end of the period. These instruments are designated as Cash Flow Hedges and the changes in the fair value are recorded as part of "cumulative other comprehensive income."

The fair value of expired commodity price contract was recorded in cost of goods sold where the hedged item was recorded.

At December 31, 2016, Coca-Cola FEMSA had the following sugar price contracts:

Maturity Date		Notional Amount		Fair Value Asset December 31, 2016
2017	**Ps.**	**572**	**Ps.**	**370**

At December 31, 2016, Coca-Cola FEMSA had the following aluminum price contracts:

Maturity Date		Notional Amount		Fair Value Asset December 31, 2016
2017	**Ps.**	**74**	**Ps.**	**5**

At December 31, 2015, Coca-Cola FEMSA had the following sugar price contracts:

Maturity Date		Notional Amount		Fair Value Liability December 31, 2015
2016	Ps.	1,497	Ps.	(190)

At December 31, 2015, Coca-Cola FEMSA had the following aluminum price contracts:

Maturity Date		Notional Amount		Fair Value Liability December 31, 2015
2016	Ps.	436	Ps.	(84)

20.7 Financial Instruments for CCFPI acquisition

Coca-Cola FEMSA's call option related to the remaining 49% ownership interest in CCFPI is measured at fair value in its financial statements using a Level 3 concept. The call option had an estimated fair value of approximately Ps. 859 million at inception of the option, and approximately Ps. 466 million and Ps. 456 million as of December 31, 2016 and 2015, respectively. Significant observable inputs into that Level 3 estimate include the call option's expected term (7 years at inception), risk free rate as expected return (LIBOR), a volatility (18.56%) and the underlying enterprise value of the CCFPI. The enterprise value of CCFPI for the purpose of this estimate was based on CCFPI's long-term business plan. Coca-Cola FEMSA uses Black & Scholes valuation technique to measure call option value. Coca-Cola FEMSA acquired its 51% ownership interest in CCFPI in January 2013 and continues to integrate CCFPI into its global operations using the equity method of accounting, and currently believes that the underlying exercise price of the call option is "out of the money". The Level 3 fair value of Coca-Cola FEMSA's put option related to its 51% ownership interest approximates zero as its exercise price as defined in the contract adjusts proportionately to the underlying fair value of CCFPI.

Coca-Cola FEMSA estimates that the call option is "out of the money" as of December 31, 2016 and 2015. As of December 31, 2016 and 2015, the call option is "out of the money" by approximately 25.47% and 13.89% or U.S. $155 million and U.S. $90 million, respectively, with respect to the strike price.

20.8 Option embedded in the Promissory Note to fund the Vonpar's acquisition

As disclosed in Note 4.1.1 regarding the acquisition of Vonpar as part of the purchase price agreement the acquirer Spal Industria Brasileira de Bebidas, S.A. (a subsidiary of the Coca-Cola FEMSA) granted a call option to former Vonpar owners to convert the promissory note denominated and payable in Brazilian Reals for the remaining balance of Ps. 6,534 million plus the appreciation and depretiation of the reals versus the U.S. dollars and an additional amount if the price of KOF shares is higher than Ps. 178.5 per share at the maturity date.

Coca-Cola FEMSA uses Black & Scholes valuation technique to measure call option at fair value. The call option had an estimated fair value of Ps. 343 million at inception of the option and Ps. 368 million as of December 31, 2016. The option is recorded as part of the Promisory Note disclosed in Note 18.

Coca-Cola FEMSA estimates that the call option is "out of the money" as of December 31, 2016 by approximately 35.9% or U.S. $93 million with respect to the strike price.

20.9 Net effects of expired contracts that met hedging criteria

Type of Derivatives	Impact in Consolidated Income Statement		2016		2015		2014
Interest rate swaps	Interest expense	**Ps.**	**-**	Ps.	-	Ps.	337
Cross currency swap [(1)]	Interest expense		**-**		2,595		-
Cross currency swap [(1)]	Foreign exchange		**-**		(10,911)		-
Forward agreements to purchase foreign currency	Foreign exchange		**160**		(180)		38
Commodity price contracts	Cost of goods sold		**(241)**		619		291
Options to purchase foreign currency	Cost of goods sold		**-**		(21)		-
Forward agreements to purchase foreign currency	Cost of goods sold		**(45)**		(523)		22

(1) This amount corresponds to the settlement of cross currency swaps portfolio in Brazil presented as part of the other financial activities.

20.10 Net effect of changes in fair value of derivative financial instruments that did not meet the hedging criteria for accounting purposes

Type of Derivatives	Impact in Consolidated Income Statement		2016		2015		2014
Interest rate swaps	Market value	**Ps.**	**-**	Ps.	-	Ps.	10
Cross currency swaps	gain (loss) on		**-**		(20)		59
Others	financial instruments		**-**		56		3

20.11 Net effect of expired contracts that did not meet the hedging criteria for accounting purposes

Type of Derivatives	Impact in Consolidated Income Statement		2016		2015		2014
Cross-currency swaps	Market value	**Ps.**	**-**	Ps.	204	Ps.	-

20.12 Market risk

Market risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market prices. Market prices include currency risk and commodity price risk.

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and commodity prices. The Company enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk, and commodity prices risk including:

- Forward Agreements to Purchase Foreign Currency in order to reduce its exposure to the risk of exchange rate fluctuations.
- Cross-Currency Swaps in order to reduce its exposure to the risk of exchange rate fluctuations.
- Commodity price contracts in order to reduce its exposure to the risk of fluctuation in the costs of certain raw materials.

The Company tracks the fair value (mark to market) of its derivative financial instruments and its possible changes using scenario analyses.

The following disclosures provide a sensitivity analysis of the market risks management considered to be reasonably possible at the end of the reporting period based on a stress test of the exchange rates according to an annualized volatility estimated with historic prices obtained for the underlying asset over a period of time, in the cases of derivative financial instruments related to foreign currency risk, which the Company is exposed to as it relates to in its existing hedging strategy:

Foreign Currency Risk	Change in Exchange Rate		Effect on Equity
2016			
FEMSA [(1)]	**-17% MXN/EUR**	**Ps.**	**293**
	+17% MXN/EUR		**(293)**
	+11% CLP/USD		**12**
	-11% CLP/USD		**(12)**
Coca-Cola FEMSA	**-18% BRL/USD**		**(203)**
	+18% BRL/USD		**203**
	-17% MXN/USD		**(916)**
	+17% MXN/USD		**916**
	-18% COP/USD		**(255)**
	+18% COP/USD		**255**
2015			
FEMSA [(1)]	-14% MXN/EUR	Ps.	319
	+14% MXN/EUR		(319)
	+10% CLP/USD		9
	-10% CLP/USD		(9)
	-11% MXN/USD		197
Coca-Cola FEMSA	+11% MXN/USD		(197)
	+21% BRL/USD		(387)
	+17% COP/USD		(113)
	-36% ARS/USD		231
	+36% ARS/USD		(231)
	-21% BRL/USD		387
	-17% COP/USD		113
	+17% COP/USD		(113)
2014			
FEMSA [(1)]	-9% MXN/EUR	Ps.	278
	+9% MXN/EUR		(278)
Coca-Cola FEMSA	-11% ARS/USD		(22)
	+11% ARS/USD		22
	-14% BRL/USD		(96)
	+14% BRL/USD		96
	-9% COP/USD		(42)
	+9% COP/USD		42
	-7% MXN/USD		(119)
	+7% MXN/USD		119

[(1)] Does not include Coca-Cola FEMSA.

Cross Currency Swaps (1) (2)	Change in Exchange Rate		Effect on Equity		Effect on Profit or Loss
2016					
	-11% CLP/USD	**Ps.**	**-**	**Ps.**	**(549)**
	+11% CLP/USD		**-**		**549**
	-17% MXN/USD		**-**		**(3,836)**
FEMSA (3)	**+17% MXN/USD**		**-**		**3,836**
	-18% COP/USD		**-**		**(448)**
	+18% COP/USD		**-**		**448**
Coca-Cola FEMSA	**+17% MXN/USD**		**3,687**		**1,790**
	+18% BRL/USD		**9,559**		**-**
	-17% MXN/USD		**(3,687)**		**(1,790)**
	-18% BRL/USD		**(9,559)**		**-**
2015					
FEMSA (3)	-11% MXN/USD	Ps.	-	Ps.	(2,043)
	+11% MXN/USD		-		2,043
Coca-Cola FEMSA	-11% MXN/USD		-		(938)
	+11% MXN/USD		-		938
	-21% BRL/USD		(4,517)		(1,086)
	+21% BRL/USD		4,517		1,086
2014					
FEMSA (3)	-7% MXN/USD	Ps.	-	Ps.	(1,100)
	+7% MXN/USD		-		1,100
Coca-Cola FEMSA	-7% MXN/USD		-		(481)
	+7% MXN/USD		-		415
	-14% BRL/USD		-		(3,935)
	+14% BRL/USD		-		2,990

Net Cash in Foreign Currency (1)	Change in Exchange Rate		Effect on Profit or Loss
2016			
FEMSA (3)	**+17% EUR/ +17% USD**	**Ps.**	**3,176**
	-17% EUR/ -17% USD		**(3,176)**
Coca-Cola FEMSA	**+17% USD**		**(105)**
	-17% USD		**105**
2015			
FEMSA (3)	+14% EUR/ +11%USD	Ps.	504
	-14% EUR/ -11%USD		(504)
Coca-Cola FEMSA	+11%USD		(1,112)
	-11%USD		1,112
2014			
FEMSA (3)	+9% EUR/+7%USD	Ps.	233
	-9% EUR/-7%USD		(233)
Coca-Cola FEMSA	+7%USD		(747)
	-7%USD		747

(1) The sensitivity analysis effects include all subsidiaries of the Company.

(2) Includes the sensitivity analysis effects of all derivative financial instruments related to foreign exchange risk.

(3) Does not include Coca-Cola FEMSA.

Commodity Price Contracts [1]	Change in U.S.$ Rate		Effect on Equity
2016			
Coca-Cola FEMSA	**Sugar - 33%**	**Ps.**	**(310)**
	Aluminum - 16%		**(13)**
2015			
Coca-Cola FEMSA	Sugar - 31%	Ps.	(406)
	Aluminum - 18%		(58)
2014			
Coca-Cola FEMSA	Sugar - 27%	Ps.	(528)
	Aluminum - 17%		(87)

(1) Effects on commoditie price contracts are only in Coca-Cola FEMSA.

20.13 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk because it and its subsidiaries borrow funds at both fixed and variable interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and variable rate borrowings, and by the use of the different derivative financial instruments. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The following disclosures provide a sensitivity analysis of the interest rate risks management considered to be reasonably possible at the end of the reporting period, which the Company is exposed to as it relates to its fixed and floating rate borrowings, which it considers in its existing hedging strategy:

Interest Rate Swap [1]	Change in Bps.		Effect on Equity
2016			
FEMSA [2]	**(100 Bps.)**	**Ps.**	**(550)**
2015			
FEMSA [2]	(100 Bps.)	Ps.	(542)
2014			
FEMSA [2]	(100 Bps.)	Ps.	(528)

(1) The sensitivity analysis effects include all subsidiaries of the Company.

(2) Does not include Coca-Cola FEMSA.

Interest Effect of Unhedged Portion Bank Loans

		2016		2015		2014
Change in interest rate		**+100 Bps.**		+100 Bps.		+100 Bps.
Effect on profit loss	**Ps.**	**(354)**	Ps.	(192)	Ps.	(244)

20.14 Liquidity risk

Each of the Company's sub-holding companies generally finances its operational and capital requirements on an independent basis. As of December 31, 2016 and 2015, 64.5% and 82.66%, respectively of the Company's outstanding consolidated total indebtedness was at the level of its sub-holding companies. This structure is attributable, in part, to the inclusion of third parties in the capital structure of Coca-Cola FEMSA. Currently, the Company's management expects to continue financing its operations and capital requirements when it is considering domestic funding at the level of its sub-holding companies, otherwise; it is generally more convenient that its foreign operations would be financed directly through the Company because of better market conditions obtained by itself. Nonetheless, sub-holdings companies may decide to incur indebtedness in the future to finance their own operations and capital requirements of the Company's subsidiaries or significant acquisitions, investments or capital expenditures. As a holding company, the Company depends on dividends and other distributions from its subsidiaries to service the Company's indebtedness.

The Company's principal source of liquidity has generally been cash generated from its operations. The Company has traditionally been able to rely on cash generated from operations because a significant majority of the sales of Coca-Cola FEMSA and FEMSA Comercio are on a cash or short-term credit basis, and FEMSA Comercio's OXXO stores are able to finance a significant portion of their initial and ongoing inventories with supplier credit. The Company's principal use of cash has generally been for capital expenditure programs, acquisitions, debt repayment and dividend payments.

Ultimate responsibility for liquidity risk management rests with the Company's board of directors, which has established an appropriate liquidity risk management framework for the management of the Company's short-, medium- and long-term funding and liquidity requirements. The Company manages liquidity risk by maintaining adequate cash reserves and continuously monitoring forecast and actual cash flows, and with a low concentration of maturities per year.

The Company has access to credit from national and international banking institutions in order to meet treasury needs; besides, the Company has the highest rating for Mexican companies (AAA) given by independent rating agencies, allowing the Company to evaluate capital markets in case it needs resources.

As part of the Company's financing policy, management expects to continue financing its liquidity needs with cash from operations. Nonetheless, as a result of regulations in certain countries in which the Company operates, it may not be beneficial or, as in the case of exchange controls in Venezuela, practicable to remit cash generated in local operations to fund cash requirements in other countries. Exchange controls like those in Venezuela may also increase the real price of remitting cash from operations to fund debt requirements in other countries. In the event that cash from operations in these countries is not sufficient to fund future working capital requirements and capital expenditures, management may decide, or be required, to fund cash requirements in these countries through local borrowings rather than remitting funds from another country. In addition, the Company's liquidity in Venezuela could be affected by changes in the rules applicable to exchange rates as well as other regulations, such as exchange controls. In the future the Company management may finance its working capital and capital expenditure needs with short-term or other borrowings.

The Company's management continuously evaluates opportunities to pursue acquisitions or engage in joint ventures or other transactions. We would expect to finance any significant future transactions with a combination of cash from operations, long-term indebtedness and capital stock.

The Company's sub-holding companies generally incur short-term indebtedness in the event that they are temporarily unable to finance operations or meet any capital requirements with cash from operations. A significant decline in the business of any of the Company's sub-holding companies may affect the sub-holding company's ability to fund its capital requirements. A significant and prolonged deterioration in the economies in which we operate or in the Company's businesses may affect the Company's ability to obtain short-term and long-term credit or to refinance existing indebtedness on terms satisfactory to the Company's management.

The Company presents the maturity dates associated with its long-term financial liabilities as of December 31, 2016, see Note 18. The Company generally makes payments associated with its long-term financial liabilities with cash generated from its operations.

The following table reflects all contractually fixed pay-offs for settlement, repayments and interest resulting from recognized financial liabilities. It includes expected net cash outflows from derivative financial liabilities that are in place as of December 31, 2016. Such expected net cash outflows are determined based on each particular settlement date of an instrument. The amounts disclosed are undiscounted net cash outflows for the respective upcoming fiscal years, based on the earliest date on which the Company could be required to pay. Cash outflows for financial liabilities (including interest) without fixed amount or timing are based on economic conditions (like interest rates and foreign exchange rates) existing at December 31, 2016.

	2017	2018	2019	2020	2021	2022 and thereafter
Non-derivative financial liabilities:						
Notes and bonds	Ps. 7,930	Ps. 22,997	Ps. 9,429	Ps. 12,754	Ps. 4,879	Ps. 122,628
Loans from banks	4,690	2,724	1,402	1,591	5,158	1,070
Obligations under finance leases	39	36	33	28	26	0
Derivative financial liabilities	(1,296)	638	664	624	(1)	(12,253)

The Company generally makes payments associated with its non-current financial liabilities with cash generated from its operations.

20.15 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Company uses other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee.

The Company has a high receivable turnover; hence management believes credit risk is minimal due to the nature of its businesses, which have a large portion of their sales settled in cash. The Company's maximum exposure to credit risk for the components of the statement of financial position at December 31, 2016 and 2015 is the carrying amounts (see Note 7).

The credit risk on derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company manages the credit risk related to its derivative portfolio by only entering into transactions with reputable and credit-worthy counterparties as well as by maintaining in some cases a Credit Support Annex (CSA) that establishes margin requirements, which could change upon changes to the credit ratings given to the Company by independent rating agencies. As of December 31, 2016, the Company concluded that the maximum exposure to credit risk related with derivative financial instruments is not significant given the high credit rating of its counterparties.

Note 21. Non-Controlling Interest in Consolidated Subsidiaries

An analysis of FEMSA's non-controlling interest in its consolidated subsidiaries for the years ended December 31, 2016 and 2015 is as follows:

		December 31, 2016		December 31, 2015
Coca-Cola FEMSA	**Ps.**	**70,293**	Ps.	58,340
Other		**3,973**		1,992
	Ps.	**74,266**	Ps.	60,332

The changes in the FEMSA's non-controlling interest were as follows:

		2016		2015		2014
Balance at beginning of the year	**Ps.**	**60,332**	Ps.	59,649	Ps.	63,158
Net income of non controlling interest		**6,035**		5,593		5,929
Other comprehensive income (loss):		**9,463**		(2,999)		(6,265)
Exchange differences on translation of foreign operation		**9,238**		(3,110)		(6,264)
Remeasurements of the net defined benefits liability		**(63)**		75		(110)
Valuation of the effective portion of derivative financial instruments		**288**		36		109
Other acquisitions and remeasurments		**1,710**		1,133		-
Contribution from non-controlling interest		**892**		250		-
Equity instruments		**(485)**		-		-
Dividends		**(3,690)**		(3,351)		(3,152)
Share based payment		**9**		57		(21)
Balance at end of the year	**Ps.**	**74,266**	Ps.	60,332	Ps.	59,649

Non controlling cumulative other comprehensive loss is comprised as follows:

		December 31, 2016		December 31, 2015
Exchange differences on translation foreign operation	**Ps.**	**(199)**	Ps.	(9,436)
Remeasurements of the net defined benefits liability		**(304)**		(241)
Valuation of the effective portion of derivative financial instruments		**195**		(93)
Cumulative other comprehensive loss	**Ps.**	**(308)**	Ps.	(9,770)

Coca-Cola FEMSA shareholders, especially the Coca-Cola Company which hold Series D shares, have some protective rights about investing in or disposing of significant businesses. However, these rights do not limit the continued normal operations of Coca-Cola FEMSA.

Summarized financial information in respect of Coca-Cola FEMSA is set out below:

		December 31, 2016		December 31, 2015
Total current assets	**Ps.**	**45,453**	Ps.	42,232
Total non-current assets		**233,803**		168,017
Total current liabilities		**39,868**		30,480
Total non-current liabilities		**110,155**		71,034
Total revenue	**Ps.**	**177,718**	Ps.	152,360
Total consolidated net income		**10,527**		10,329
Total consolidated comprehensive income	**Ps.**	**27,171**	Ps.	5,033
Net cash flow from operating activities		**32,446**		23,202
Net cash flow from used in investing activities		**(26,915)**		(10,945)
Net cash flow from financing activities		(9,734)		(8,567)

Note 22. Equity

22.1 Equity accounts

The capital stock of FEMSA is comprised of 2,161,177,770 BD units and 1,417,048,500 B units.

As of December 31, 2016 and 2015, the capital stock of FEMSA was comprised of 17,891,131,350 common shares, without par value and with no foreign ownership restrictions. Fixed capital stock amounts to Ps. 300 (nominal value) and the variable capital may not exceed 10 times the minimum fixed capital stock amount.

The characteristics of the common shares are as follows:

- Series "B" shares, with unlimited voting rights, which at all times must represent a minimum of 51% of total capital stock;
- Series "L" shares, with limited voting rights, which may represent up to 25% of total capital stock; and
- Series "D" shares, with limited voting rights, which individually or jointly with series "L" shares may represent up to 49% of total capital stock.

The Series “D” shares are comprised as follows:

- Subseries “D-L” shares may represent up to 25% of the series “D” shares;
- Subseries “D-B” shares may comprise the remainder of outstanding series “D” shares; and
- The non-cumulative premium dividend to be paid to series “D” shareholders will be 125% of any dividend paid to series “B” shareholders.

The Series “B” and “D” shares are linked together in related units as follows:

- “B units” each of which represents five series “B” shares and which are traded on the BMV; and
- “BD units” each of which represents one series “B” share, two subseries “D-B” shares and two subseries “D-L” shares, and which are traded both on the BMV and the NYSE.

As of December 31, 2016 and 2015, FEMSA’s capital stock is comprised as follows:

	“B” Units	“BD” Units	Total
Units	1,417,048,500	2,161,177,770	3,578,226,270
Shares:			
Series “B”	7,085,242,500	2,161,177,770	9,246,420,270
Series “D”	-	8,644,711,080	8,644,711,080
Subseries “D-B”	-	4,322,355,540	4,322,355,540
Subseries “D-L”	-	4,322,355,540	4,322,355,540
Total shares	7,085,242,500	10,805,888,850	17,891,131,350

The net income of the Company is subject to the legal requirement that 5% thereof be transferred to a legal reserve until such reserve equals 20% of capital stock at nominal value. This reserve may not be distributed to shareholders during the existence of the Company, except as a stock dividend. As of December 31, 2016 and 2015, this reserve amounted to Ps. 596.

Retained earnings and other reserves distributed as dividends, as well as the effects derived from capital reductions, are subject to income tax at the rate in effect at the date of distribution, except when capital reductions come from restated shareholder contributions and when the distributions of dividends come from net taxable income, denominated “Cuenta de Utilidad Fiscal Neta” (“CUFIN”).

Dividends paid in excess of CUFIN are subject to income tax at a grossed-up rate based on the current statutory rate. Since 2003, this tax may be credited against the income tax of the year in which the dividends are paid, and in the following two years against the income tax and estimated tax payments. Due to the Mexican Tax Reform, a new Income Tax Law (LISR) went into effect on January 1, 2014. Such law no longer includes the tax consolidation regime which allowed calculating the CUFIN on a consolidated basis; therefore, beginning in 2014, distributed dividends must be taken from the individual CUFIN balance of FEMSA, which can be increased with the subsidiary companies’ individual CUFINES through the transfers of dividends. The sum of the individual CUFIN balances of FEMSA and its subsidiaries as of December 31, 2016 amounted to Ps. 103,615.

In addition, the new LISR sets forth that entities that distribute dividends to its stockholders who are individuals and foreign residents must withhold 10% thereof for ISR purposes, which will be paid in Mexico. The foregoing will not be applicable when distributed dividends arise from the accumulated CUFIN balances as December 31, 2013.

At an ordinary shareholders’ meeting of Coca-Cola FEMSA held on March 6, 2014, the shareholders approved a dividend of Ps. 6,012 that was paid 50% on May 4, 2014 and other 50% on November 5, 2014. The corresponding payment to the non-controlling interest was Ps. 3,134.

At an ordinary shareholders’ meeting of FEMSA held on March 19, 2015, the shareholders approved a dividend of Ps. 7,350 that was paid 50% on May 7, 2015 and other 50% on November 5, 2015; and a reserve for share repurchase of a maximum of Ps. 3,000. As of December 31, 2015, the Company has not repurchased shares. Treasury shares resulted from share-based payment bonus plan are disclosed in Note 17.

At an ordinary shareholders’ meeting of Coca-Cola FEMSA held on March 12, 2015, the shareholders approved a dividend of Ps. 6,405 that was paid 50% on May 5, 2015 and other 50% on November 3, 2015. The corresponding payment to the non-controlling interest was Ps. 3,340.

At an ordinary shareholders’ meeting of FEMSA held on March 8, 2016, the shareholders approved a dividend of Ps. 8,355 that was paid 50% on May 5, 2016 and other 50% on November 3, 2016; and a reserve for share repurchase of a maximum of Ps. 7,000. As of December 31, 2016, the Company has not repurchased shares. Treasury shares resulted from share-based payment bonus plan are disclosed in Note 17.

At an ordinary shareholders’ meeting of Coca-Cola FEMSA held on March 7, 2016, the shareholders approved a dividend of Ps. 6,944 that was paid 50% on May 3, 2016 and other 50% on November 1, 2016. The corresponding payment to the non-controlling interest was Ps. 3,621.

For the years ended December 31, 2016, 2015 and 2014 the dividends declared and paid by the Company and Coca-Cola FEMSA were as follows:

	2016	2015	2014
FEMSA	**Ps. 8,355**	Ps. 7,350	Ps. -
Coca-Cola FEMSA (100% of dividend)	**6,945**	6,405	6,012

For the years ended December 31, 2016 and 2015 the dividends declared and paid per share by the Company are as follows:

Series of Shares	2016	2015
“B”	**Ps. 0.41666**	Ps. 0.36649
“D”	**0.52083**	0.45811

22.2 Capital management

The Company manages its capital to ensure that its subsidiaries will be able to continue as going concerns while maximizing the return to shareholders through the optimization of its debt and equity balance in order to obtain the lowest cost of capital available. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2016 and 2015.

The Company is not subject to any externally imposed capital requirements, other than the legal reserve (see Note 22.1) and debt covenants (see Note 18).

The Company's finance committee reviews the capital structure of the Company on a quarterly basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. In conjunction with this objective, the Company seeks to maintain the highest credit rating both national and international, currently rated AAA and A- respectively, which requires it to have a debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio lower than 1.5. As a result, prior to entering into new business ventures, acquisitions or divestures, management evaluates the optimal ratio of debt to EBITDA in order to maintain its credit rating.

Note 23. Earnings per Share

Basic earnings per share amounts are calculated by dividing consolidated net income for the year attributable to controlling interest by the weighted average number of shares outstanding during the period adjusted for the weighted average of own shares purchased in the period.

Diluted earnings per share amounts are calculated by dividing consolidated net income for the year attributable to controlling interest by the weighted average number of shares outstanding during the period plus the weighted average number of shares for the effects of dilutive potential shares (originated by the Company's share based payment program).

	2016		2015		2014	
	Per Series "B" Shares	Per Series "D" Shares	Per Series "B" Shares	Per Series "D" Shares	Per Series "B" Shares	Per Series "D" Shares
Shares expressed in millions:						
Weighted average number of shares for basic earnings per share	**9,242.48**	**8,628.97**	9,241.91	8,626.69	9,240.54	8,621.18
Effect of dilution associated with non-vested shares for share based payment plans	**3.94**	**15.74**	4.51	18.02	5.88	23.53
Weighted average number of shares adjusted for the effect of dilution (Shares outstanding)	**9,246.42**	**8,644.71**	9,246.42	8,644.71	9,246.42	8,644.71
Dividend rights per series (see Note 22.1)	**100%**	**125%**	100%	125%	100%	125%
Weighted average number of shares further adjusted to reflect dividend rights	**9,246.42**	**10,805.89**	9,246.42	10,805.89	9,246.42	10,805.89
Allocation of earnings, weighted	**46.11%**	**53.89%**	46.11%	53.89%	46.11%	53.89%
Net Controlling Interest Income Allocated	**Ps. 9,748**	**Ps. 11,392**	Ps. 8,154	Ps. 9,529	Ps. 7,701	Ps. 9,000

Note 24. Income Taxes

On April 1, 2015, the Brazilian government issued Decree No. 8.426/15 to impose, as of July 2015, PIS/COFINS (Social Contributions on Gross Revenues) of 4.65% on financial income (except for foreign exchange variations).

Also in Brazil, starting 2016 the rates of value-added tax in certain states will be changed as follows: Mato Grosso do Sul – from 17.0% to 20.0%; Rio Grande do Sul from 18.0% to 20.0%; Minas Gerais - the tax rate will remain at 18.0% but there will be an additional 2.0% as a contribution to poverty eradication just for the sales to non-taxpayer (final consumers); Rio de Janeiro - the contribution related to poverty eradication fund will be increased from 1.0% to 2.0% effectively in April; Paraná - the rate will be reduced to 16.0% but a rate of 2.0% as a contribution to poverty eradication will be charged on sales to non-taxpayers.

Additionally in Brazil, starting on January 1st, 2016, the rates of federal production tax will be reduced and the rates of the federal sales tax will be increased. Coca-Cola FEMSA estimates of these taxes is 16.2% over the net sales. For 2017, we expected the average of these taxes will range between 15.0% and 17.0% over the net sales.

On January 1, 2015, a general tax reform became effective in Colombia. This reform included the imposition of a new temporary tax on net equity through 2017 to Colombian residents and non-residents who own property in Colombia directly or indirectly through branches or permanent establishments. The relevant taxable base will be determined annually based on a formula. For net equity that exceeds 5.0 billion Colombian pesos (approximately U.S. $2.1 million) the rate will be 1.15% in 2015, 1.0% in 2016 and 0.4% in 2017. In addition, the tax reform in Colombia imposed that the supplementary income tax at a rate of 9.0% as contributions to social programs, which was previously scheduled to decrease to 8.0% by 2015, will remain indefinitely. Additionally, this tax reform included the imposition of a temporary contribution to social programs at a rate of 5.0%, 6.0%, 8.0% and 9.0% for the years 2015, 2016, 2017 and 2018, respectively. Finally, this reform establishes an income tax deduction of 2.0% of value-added tax paid in the acquisition or import of hard assets, such as tangible and amortizable assets that are not sold or transferred in the ordinary course of business and that are used for the production of goods or services. Some of these rules were changed again through a new tax reform introduced at the end of 2016 and be effective in 2017, as described below.

On January 1, 2017, a new general tax reform became effective in Colombia. This reform modifies the income tax rate to 33%, starting with a 34.0% for 2017 and then 33.0% for the next years. In addition, this reform includes an extra income tax rate of 6.0% for 2017 and 4.0% for 2018, for entities located outside free trade zone. Regarding taxpayers located in free trade zone, the special income tax rate increase to 20.0% for 2017. In 2016 the rate is 15.0%. Additionally, the supplementary income tax (9.0%) the temporary contribution to social programs (5.0% to 9.0% for 2015 to 2018), and the tax on net equity which were included in tax reform 2015 were eliminated. For 2017, the dividends received by individuals that are Colombian residents will be subject to a withholding of 35.0%; the dividends received by foreign individuals or entities non-residents in Colombia will be subject to a withholding of 5.0%. Finally, regarding the presumptive income on patrimony, the rate increased to a 3.5% for 2017 instead of 3.0% in 2016. Starting in 2017, the Colombian general rate of value-added tax (VAT) increased to 19.0%, replacing the 16.0% rate in effect till 2016.

On December 30, 2015, the Venezuelan government enacted a package of tax reforms that became effective in January 2016. This reform mainly (i) eliminated the inflationary adjustments for the calculation of income tax as well as the new investment tax deduction, and (ii) imposed a new tax on financial transactions effective as of February 1, 2016, for those identified as "special taxpayers," at a rate of 0.75% over certain financial transactions, such as bank withdrawals, transfer of bonds and securities, payment of debts without intervention of the financial system and debits on bank accounts for cross-border payments, which will be immediately withheld by the banks. Given the inherent uncertainty as to how the Venezuelan Tax Administration will require that the aforementioned inflation adjustments be applied, starting 2016 the Company decided to recognize the effects of elimination of the inflationary adjustments.

24.1 Income Tax

The major components of income tax expense for the years ended December 31, 2016, 2015 and 2014 are:

		2016		2015		2014
Current tax expense	**Ps.**	**13,548**	Ps.	9,879	Ps.	7,810
Deferred tax expense:						
Origination and reversal of temporary differences		**(3,947)**		826		1,303
(Recognition) application of tax losses, net		**(1,693)**		(2,789)		(2,874)
Total deferred tax income		**(5,640)**		(1,963)		(1,571)
Change in the statutory rate		**(20)**		16		14
	Ps.	**7,888**	Ps.	7,932	Ps.	6,253

Recognized in Consolidated Statement of Other Comprehensive Income (OCI)

Income tax related to items charged or recognized directly in OCI during the year:		2016		2015		2014
Unrealized loss on cash flow hedges	**Ps.**	**745**	Ps.	93	Ps.	219
Exchange differences on translation of foreign operations		**4,478**		1,699		(60)
Remeasurements of the net defined benefit liability		**(49)**		49		(49)
Share of the other comprehensive income of associates and joint ventures		**(1,385)**		193		189
Total income tax cost recognized in OCI	**Ps.**	**3,789**	Ps.	2,034	Ps.	299

A reconciliation between tax expense and income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method multiplied by the Mexican domestic tax rate for the years ended December 31, 2016, 2015 and 2014 is as follows:

	2016	2015	2014
Mexican statutory income tax rate	**30.0%**	30.0%	30.0%
Difference between book and tax inflationary values and translation effects	**(2.4%)**	(1.3%)	(3.1%)
Annual inflation tax adjustment	**0.6%**	(1.5%)	(4.4%)
Difference between statutory income tax rates	**1.2%**	0.4%	0.9%
Non-deductible expenses	**2.8%**	3.3%	3.7%
Taxable (non-taxable) income, net	**(0.4%)**	(0.3%)	(1.1%)
Change in the statutory Mexican tax rate	**(0.1%)**	0.1%	0.1%
Hedge of a net investment in foreign operations	**(2.2%)**	-	-
Effect of changes in Venezuela Tax Law	**3.6%**	-	-
Income tax credits	**(3.9%)**	-	-
Others	**(1.6%)**	0.8%	0.2%
	27.6%	31.5%	26.3%

Deferred Income Tax Related to:

	Consolidated Statement of Financial Position as of		Consolidated Statement of Income		
	December 31, 2016	December 31, 2015	2016	2015	2014
Allowance for doubtful accounts	**Ps. (172)**	Ps. (128)	**Ps. (17)**	Ps. 93	Ps. (106)
Inventories	**(112)**	66	**(151)**	(14)	77
Other current assets	**64**	120	**(80)**	21	(18)
Property, plant and equipment, net	**(471)**	(1,858)	**670**	(314)	(968)
Investments in associates and joint ventures	**(1,227)**	307	**75**	684	87
Other assets	**257**	99	**234**	(52)	422
Finite useful lived intangible assets	**201**	419	**(1,506)**	201	(133)
Indefinite lived intangible assets	**9,376**	146	**7,391**	84	(195)
Post-employment and other long-term employee benefits	**(692)**	(672)	**(34)**	86	(92)
Derivative financial instruments	**255**	127	**128**	165	(99)
Provisions	**(2,956)**	(1,209)	**(411)**	(8)	(477)
Temporary non-deductible provision	**(3,450)**	2,486	**(9,118)**	735	2,450
Employee profit sharing payable	**(340)**	(311)	**(29)**	(43)	(13)
Tax loss carryforwards	**(8,889)**	(5,272)	**(1,693)**	(2,789)	(2,874)
Tax credits to recover [2]	**(1,150)**	-	**(1,150)**	-	-
Cumulative other comprehensive income [1]	**537**	(171)	**-**	-	-
Exchange differences on translation of foreign operations in OCI	**7,694**	3,834	**-**	-	-
Other liabilities	**59**	(46)	**102**	(113)	475
Deferred tax income	**-**	-	**Ps. (5,589)**	Ps. (1,264)	Ps. (1,464)
Deferred tax income net recorded in share of the profit of associates and joint ventures accounted for using the equity method	**-**	-	**(71)**	(683)	(93)
Deferred tax income, net	**-**	-	**Ps. (5,660)**	Ps. (1,947)	Ps. (1,557)
Deferred income taxes, net	**(1,016)**	(2,063)			
Deferred tax asset	**(12,053)**	(8,293)			
Deferred tax liability	**Ps. 11,037**	Ps. 6,230			

(1) Deferred tax related to derivative financial instruments and remeasurements of the ned defined benefit liability.

(2) Correspond to income tax credits arising of dividends received from foreign subsidiaries to be recovered within the next ten years accordingly to the Mexican Income Tax law as well as effects of the exchange of foreign currencies with a related and non-related parties.

As a result of the change of this law, the Company recognized a deferred tax liability in Venezuela for an amount of Ps. 1,107 with their corresponding impact on the income tax of the year as disclosed in the effective tax rate reconciliation.

Deferred Tax Related to Other Comprehensive Income (OCI)

Income tax related to items charged or recognized directly in OCI as of the year:	2016	2015
Unrealized loss on derivative financial instruments	**Ps. 847**	Ps. 105
Remeasurements of the net defined benefit liability	**(306)**	(275)
Total deferred tax loss (income) related to OCI	**Ps. 541**	Ps. (170)

The changes in the balance of the net deferred income tax asset are as follows:

	2016	2015	2014
Initial balance	**Ps. (2,063)**	Ps. (2,635)	Ps. (799)
Deferred tax provision for the year	**(5,640)**	(1,963)	(1,571)
Change in the statutory rate	**(20)**	16	14
Deferred tax income net recorded in share of the profit of associates and joint ventures accounted for using the equity method	**71**	683	93
Acquisition of subsidiaries (see Note 4)	**1,375**	(161)	(516)
Effects in equity:			
Unrealized loss on cash flow hedges	**1,008**	184	109
Exchange differences on translation of foreign operations	**3,260**	1,729	617
Remeasurements of the net defined benefit liability	**(479)**	121	(427)
Retained earnings of associates	**(224)**	(396)	(180)
Cash flow hedges in foreign investments	**(618)**	-	-
Restatement effect of the year and beginning balances associated with hyperinflationary economies	**2,314**	359	25
Ending balance	**Ps. (1,016)**	Ps. (2,063)	Ps. (2,635)

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities related to income taxes are levied by the same tax authority.

Tax Loss Carryforwards

The subsidiaries in Mexico, Colombia and Brazil have tax loss carryforwards. The tax losses carryforwards and their years of expiration are as follows:

Year		Tax Loss Carryforwards
2017	Ps.	502
2018		91
2019		563
2020		119
2021		53
2022		185
2023		15
2024		1,850
2025		3,463
2026 and thereafter		6,706
No expiration (Brazil and Colombia)		13,905
	Ps.	27,452

The Company recorded certain goodwill balances due to acquisitions that are deductible for Brazilian income tax reporting purposes. The deduction of such goodwill amortization has resulted in the creation of NOLs in Brazil. NOLs in Brazil have no expiration, but their usage is limited to 30% of Brazilian taxable income in any given year. As of December 31, 2016, The Company believes that it is more likely than not that it will ultimately recover such NOLs through the reversal of temporary differences and future taxable income. Accordingly the related deferred tax assets have been fully recognized.

The changes in the balance of tax loss carryforwards are as follows:

		2016		2015
Balance at beginning of the year	**Ps.**	**16,463**	Ps.	8,734
Reserved		**(2)**		-
Additions		**6,349**		8,545
Additions from acquisitions		**-**		825
Usage of tax losses		**(168)**		(215)
Translation effect of beginning balances		**4,810**		(1,426)
Balance at end of the year	**Ps.**	**27,452**	Ps.	16,463

There were no withholding taxes associated with the payment of dividends in either 2016, 2015 or 2014 by the Company to its shareholders.

The Company has determined that undistributed profits of its subsidiaries, joint ventures or associates will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognized, aggregate to Ps. 41,204 (December 31, 2015: Ps. 44,082 and December 31, 2014: Ps. 43,394).

24.2 Recoverable taxes

Recoverable taxes are mainly integrated by higher provisional payments of income tax during 2016 in comparison to prior year, which will be compensated during 2017.

The operations in Guatemala and Colombia are subject to a minimum tax, which is based primary on a percentage of assets. Any payments are recoverable in future years, under certain conditions.

Note 25. Other Liabilities, Provisions, Contingencies and Commitments

25.1 Other current financial liabilities

		December 31, 2016		December 31, 2015
Sundry creditors	**Ps.**	**7,244**	Ps.	4,336
Derivative financial instruments (see Note 20)		**264**		358
Others		**75**		15
Total	**Ps.**	**7,583**	Ps.	4,709

The carrying value of short-term payables approximates its fair value as of December 31, 2016 and 2015.

25.2 Provisions and other long term liabilities

		December 31, 2016		December 31, 2015
Provisions	**Ps.**	**16,428**	Ps.	3,415
Taxes payable		**508**		458
Others		**1,457**		1,334
Total	**Ps.**	**18,393**	Ps.	5,207

25.3 Other financial liabilities

		December 31, 2016		December 31, 2015
Derivative financial instruments (see Note 20)	**Ps.**	**6,403**	Ps.	277
Security deposits		**917**		218
Total	**Ps.**	**7,320**	Ps.	495

25.4 Provisions recorded in the consolidated statement of financial position

The Company has various loss contingencies, and has recorded reserves as other liabilities for those legal proceedings for which it believes an unfavorable resolution is probable. Most of these loss contingencies are the result of the Company's business acquisitions. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2016 and 2015:

		December 31, 2016		December 31, 2015
Indirect taxes	**Ps.**	**11,065**	Ps.	1,725
Labor		**2,578**		1,372
Legal		**2,785**		318
Total	**Ps.**	**16,428**	Ps.	3,415

25.5 Changes in the balance of provisions recorded

25.5.1 Indirect taxes

		December 31, 2016		December 31, 2015		December 31, 2014
Balance at beginning of the year	**Ps.**	**1,725**	Ps.	2,271	Ps.	3,300
Penalties and other charges		**173**		21		220
New contingencies (see Note 19)		**768**		84		38
Reclasification in tax contingencies with Heineken		**-**		-		1,349
Contingencies added in business combination [1]		**7,840**		-		1,190
Cancellation and expiration		**(106)**		(205)		(798)
Payments		**(6)**		(214)		(2,517)
Brazil amnesty adoption		**-**		-		(599)
Effects of changes in foreign exchange rates		**671**		(232)		88
Balance at end of the year	**Ps.**	**11,065**	Ps.	1,725	Ps.	2,271

During 2014, Coca-Cola FEMSA took advantage of a Brazilian tax amnesty program. The settlementof certain outstanding matters under that amnesty program generated a benefit Ps. 455 which is reflected in other income during the year ended December 31, 2014 (see Note 19).

25.5.2 Labor

		December 31, 2016		December 31, 2015		December 31, 2014
Balance at beginning of the year	**Ps.**	**1,372**	Ps.	1,587	Ps.	1,063
Penalties and other charges		**203**		210		107
New contingencies		**397**		44		145
Contingencies added in business combination		**500**		-		442
Cancellation and expiration		**(186)**		(102)		(53)
Payments		**(336)**		(114)		(57)
Effects of changes in foreign exchange rates		**628**		(253)		(60)
Balance at end of the year	**Ps.**	**2,578**	Ps.	1,372	Ps.	1,587

While provision for all claims has already been made, the actual outcome of the disputes and the timing of the resolution cannot be estimated by the Company at this time.

25.5.3 Legal

		December 31, 2016		December 31, 2015		December 31, 2014
Balance at beginning of the year	**Ps.**	**318**	Ps.	427	Ps.	417
Penalties and other charges		**34**		-		4
New contingencies		**196**		-		9
Contingencies added in business combination		**2,231**		-		-
Cancellation and expiration		**(46)**		(33)		(5)
Payments		**(81)**		-		-
Effects of changes in foreign exchange rates		**133**		(76)		2
Balance at end of the year	**Ps.**	**2,785**	Ps.	318	Ps.	427

[1] Coca-Cola FEMSA recognized an amount of Ps. 7,840 correspond to tax claims with local IRS (including a contingency of Ps. 5,321 related to the deductibility of a tax goodwill balance). The remaining contingencies relates to multiple IRS claims with loss expectations assessed by management and supported by the analysis of legal counsels as possible, the total amount of contingencies guaranteed agreements amounts to Ps. 8,081, such amount is included in Note 13.1.

25.6 Unsettled lawsuits

The Company has entered into several proceedings with its labor unions, tax authorities and other parties that primarily involve Coca-Cola FEMSA and its subsidiaries. These proceedings have resulted in the ordinary course of business and are common to the industry in which the Company operates. The aggregate amount being claimed against the Company resulting from such proceedings as of December 31, 2016 is Ps. 53,045. Such contingencies were classified by legal counsel as less than probable but more than remote of being settled against the Company. However, the Company believes that the ultimate resolution of such several proceedings will not have a material effect on its consolidated financial position or result of operations.

Included in this amount Coca-Cola FEMSA has tax contingencies, most of which are related to its Brazilian operations, amounting to approximately Ps. 40,606, with loss expectations assessed by management and supported by the analysis of legal counsel consider as possible. Among these possible contingencies, are Ps. 11,748 in various tax disputes related primarily to credits for ICMS (VAT) and Ps. 26,559 related to tax credits of IPI over raw materials acquired from Free Trade Zone Manaus. Possible claims also include Ps. 1,646 related to compensation of federal taxes not approved by the IRS (Tax authorities) and Ps. 653 related to the requirement by the Tax Authorities of State of São Paulo for ICMS (VAT), interest and penalty due to the alleged underpayment of tax arrears for the period 1994-1996. Coca-Cola FEMSA is defending its position in these matters and final decision is pending in court. In addition, the Company has Ps. 6,531 in unsettled indirect tax contingencies regarding indemnification accorded with Heineken over FEMSA Cerveza. These matters are related to different Brazilian federal taxes which are pending final decision.

In recent years in its Mexican and Brazilian territories, Coca-Cola FEMSA has been requested to present certain information regarding possible monopolistic practices. These requests are commonly generated in the ordinary course of business in the soft drink industry where this subsidiary operates. The Company does not expect any material liability to arise from these contingencies.

25.7 Collateralized contingencies

As is customary in Brazil, the Company has been required by the tax authorities there to collateralize tax contingencies currently in litigation amounting to Ps. 8,093 and Ps. 3,569 as of December 31, 2016 and 2015, respectively, by pledging fixed assets and entering into available lines of credit covering the contingencies (see Note 13).

25.8 Commitments

As of December 31, 2016, the Company has contractual commitments for finance leases for machinery and transport equipment and operating lease for the rental of production machinery and equipment, distribution and computer equipment, and land for FEMSA Comercio's operations.

The contractual maturities of the operating lease commitments by currency, expressed in Mexican pesos as of December 31, 2016, are as follows:

	Mexican Pesos	U.S. Dollars	Others
Not later than 1 year	**Ps. 4,130**	**Ps. 363**	**Ps. 1,424**
Later than 1 year and not later than 5 years	**17,500**	**1,253**	**4,109**
Later than 5 years	**28,560**	**468**	**2,887**
Total	**Ps. 50,190**	**Ps. 2,084**	**Ps. 8,420**

Rental expense charged to consolidated net income was Ps. 8,202, Ps. 6,088 and Ps. 4,988 for the years ended December 31, 2016, 2015 and 2014, respectively.

Future minimum lease payments under finance leases with the present value of the net minimum lease payments are as follows:

	2016 Minimum Payments	Present Value of Payments	2015 Minimum Payments	Present Value of Payments
Not later than 1 year	**Ps. (32)**	**Ps. (68)**	Ps. 109	Ps. 91
Later than 1 year and not later than 5 years	**103**	**83**	359	327
Later than 5 years	**-**	**97**	166	149
Total minimum lease payments	**135**	**112**	634	567
Less amount representing finance charges	**23**	**-**	67	-
Present value of minimum lease payments	**112**	**112**	567	567

The Company through its subsidiary Coca-Cola FEMSA has firm commitments for the purchase of property, plant and equipment of Ps. 234 as December 31, 2016.

Note 26. Information by Segment

The analytical information by segment is presented considering the Company's business units (as defined in Note 1) based on its products and services, which is consistent with the internal reporting presented to the Chief Operating Decision Maker. A segment is a component of the Company that engages in business activities from which it earns renenues, and incurs the related costs and expenses, including revenues, costs and expenses that relate to transactions with any of Company's other components. All segments' operating results are reviewed regularly by the Chief Operating Decision Maker, which makes decisions about the resources that would be allocated to the segment and to assess its performance, and for which financial information is available.

Inter-segment transfers or transactions are entered into and presented under accounting policies of each segment, which are the same to those applied by the Company. Intercompany operations are eliminated and presented within the consolidation adjustment column included in the tables below.

a) By Business Unit:

2016	Coca-Cola FEMSA	FEMSA Comercio Retail Division	FEMSA Comercio Health Division	FEMSA Comercio Fuel Division	CB Equity	Other [1]	Consolidation Adjustments	Consolidated
Total revenues	Ps. 177,718	Ps. 137,139	Ps. 43,411	Ps. 28,616	Ps. -	Ps. 29,491	Ps. (16,868)	Ps. 399,507
Intercompany revenue	4,269	-	-	-	-	12,599	(16,868)	-
Gross profit	79,662	50,990	12,738	2,248	-	6,114	(3,548)	148,204
Administrative expenses	-	-	-	-	-	-	-	14,730
Selling expenses	-	-	-	-	-	-	-	95,547
Other income	-	-	-	-	-	-	-	1,157
Other expenses	-	-	-	-	-	-	-	5,909
Interest expense	7,473	809	654	109	-	1,580	(979)	9,646
Interest income	715	246	31	37	20	1,229	(979)	1,299
Other net finance expenses [3]	-	-	-	-	-	-	-	3,728
Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method	14,308	11,046	914	182	9	2,218	(121)	28,556
Income taxes	3,928	719	371	16	3	2,851	-	7,888
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	147	15	-	-	6,342	3	-	6,507
Consolidated net income	-	-	-	-	-	-	-	27,175
Depreciation and amortization [2]	8,666	3,736	855	92	-	360	-	13,709
Non-cash items other than depreciation and amortization	2,908	288	8	17	-	630	-	3,851
Investments in associates and joint ventures	22,357	611	-	-	105,229	404	-	128,601
Total assets	279,256	59,740	35,862	3,649	108,976	90,429	(32,289)	545,623
Total liabilities	150,023	42,211	24,368	3,132	7,132	64,876	(32,289)	259,453
Investments in fixed assets [4]	12,391	7,632	474	299	-	1,671	(312)	22,155

(1) Includes other companies (see Note 1) and corporate.

(2) Includes bottle breakage.

(3) Includes foreign exchange loss, net; loss on monetary position for subsidiaries in hyperinflationary economies; and market value gain on financial instruments.

(4) Includes acquisitions and disposals of property, plant and equipment, intangible assets and other long-lived assets.

2015	Coca-Cola FEMSA	FEMSA Comercio Retail Division	FEMSA Comercio Health Division	FEMSA Comercio Fuel Division	CB Equity	Other [1]	Consolidation Adjustments	Consolidated
Total revenues	Ps. 152,360	Ps. 119,884	Ps. 13,053	Ps. 18,510	Ps. -	Ps. 22,774	Ps. (14,992)	Ps. 311,589
Intercompany revenue	3,794	46	-	-	-	11,152	(14,992)	-
Gross profit	72,030	43,649	3,688	1,420	-	5,334	(2,942)	123,179
Administrative expenses	-	-	-	-	-	-	-	11,705
Selling expenses	-	-	-	-	-	-	-	76,375
Other income	-	-	-	-	-	-	-	423
Other expenses	-	-	-	-	-	-	-	(2,741)
Interest expense	(6,337)	(612)	(148)	(78)	-	(1,269)	667	(7,777)
Interest income	414	149	8	35	18	1,067	(667)	1,024
Other net finance expenses [3]	-	-	-	-	-	-	-	(865)
Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method	14,725	9,714	416	164	8	208	(72)	25,163
Income taxes	4,551	859	97	28	2	2,395	-	7,932
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	155	(10)	-	-	5,879	21	-	6,045
Consolidated net income	-	-	-	-	-	-	-	23,276
Depreciation and amortization [2]	7,144	3,132	204	63	-	282	-	10,825
Non-cash items other than depreciation and amortization	1,443	296	(16)	17	-	326	-	2,066
Investments in associates and joint ventures	17,873	744	-	19	92,694	401	-	111,731
Total assets	210,249	44,677	22,534	3,230	95,502	49,213	(16,073)	409,332
Total liabilities	101,514	30,661	14,122	2,752	4,202	30,298	(16,073)	167,476
Investments in fixed assets [4]	11,484	5,731	317	228	-	1,448	(323)	18,885

(1) Includes other companies (see Note 1) and corporate.

(2) Includes bottle breakage.

(3) Includes foreign exchange loss, net; loss on monetary position for subsidiaries in hyperinflationary economies; and market value gain on financial instruments.

(4) Includes acquisitions and disposals of property, plant and equipment, intangible assets and other long-lived assets.

2014	Coca-Cola FEMSA	FEMSA Comercio Retail Division	CB Equity	Other [1]	Consolidation Adjustments	Consolidated
Total revenues	Ps. 147,298	Ps. 109,624	Ps. -	Ps. 20,069	Ps. (13,542)	Ps. 263,449
Intercompany revenue	3,475	-	-	10,067	(13,542)	-
Gross profit	68,382	39,386	-	4,871	(2,468)	110,171
Administrative expenses	-	-	-	-	-	10,244
Selling expenses	-	-	-	-	-	69,016
Other income	-	-	-	-	-	1,098
Other expenses	-	-	-	-	-	(1,277)
Interest expense	(5,546)	(686)	-	(1,093)	624	(6,701)
Interest income	379	23	16	1,068	(624)	862
Other net finance expenses [3]	-	-	-	-	-	(1,149)
Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method	14,952	7,959	8	905	(80)	23,744
Income taxes	3,861	541	2	1,849	-	6,253
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	(125)	37	5,244	(17)	-	5,139
Consolidated net income	-	-	-	-	-	22,630
Depreciation and amortization [2]	6,949	2,872	-	193	-	10,014
Non-cash items other than depreciation and amortization	693	204	-	87	-	984
Investments in associates and joint ventures	17,326	742	83,710	381	-	102,159
Total assets	212,366	43,722	85,742	51,251	(16,908)	376,173
Total liabilities	102,248	31,860	2,005	26,846	(16,908)	146,051
Investments in fixed assets [4]	11,313	5,191	-	1,955	(296)	18,163

(1) Includes other companies (see Note 1) and corporate.

(2) Includes bottle breakage.

(3) Includes foreign exchange loss, net; loss on monetary position for subsidiaries in hyperinflationary economies; and market value gain on financial instruments.

(4) Includes acquisitions and disposals of property, plant and equipment, intangible assets and other long-lived assets.

As of December 31, 2016, FEMSA Comercio – Health Division was aggregated into FEMSA Comercio – Retail Division, based on the non compliance of the quantitative thresholds to be considered as a reportable segment (see Note 2.3.2). However, in 2016, FEMSA Comercio – Health Division has been considered as a separate reportable segment since it exceeds the quantitative criteria; therefore, the Company had restated 2015 information by segment in its consolidated financial statements for comparative purposes.

b) By Geographic Area:
The Company aggregates geographic areas into the following for the purposes of its consolidated financial statements: (i) Mexico and Central America division (comprising the following countries: Mexico, Guatemala, Nicaragua, Costa Rica and Panama) and (ii) the South America division (comprising the following countries: Brazil, Argentina, Colombia, Chile and Venezuela). Venezuela operates in an economy with exchange controls and hyper-inflation; and as a result,it is not aggregated into the South America area, (iii) Europe (comprised of the Company's equity method investment in Heineken) and (iv) the Asian division comprised of the Coca-Cola FEMSA's equity method investment in CCFPI (Philippines) which was acquired in January 2013.

Geographic disclosure for the Company is as follow:

2016		Total Revenues		Total Non Current Assets
Mexico and Central America [1] [2]	Ps.	**267,732**	Ps.	**176,613**
South America [3]		**113,937**		**138,549**
Venezuela		**18,937**		**7,281**
Europe		**-**		**105,229**
Consolidation adjustments		**(1,099)**		**-**
Consolidated	Ps.	**399,507**	Ps.	**427,672**

2015				
Mexico and Central America [1] [2]	Ps.	228,563	Ps.	158,506
South America [3]		74,928		67,568
Venezuela		8,904		3,841
Europe		-		92,694
Consolidation adjustments		(806)		-
Consolidated	Ps.	311,589	Ps.	322,609

2014		Total Revenues
Mexico and Central America [1] [2]	Ps.	186,736
South America [3]		69,172
Venezuela		8,835
Europe		-
Consolidation adjustments		(1,294)
Consolidated	Ps.	263,449

[1] Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico only) revenues were Ps. 254,643, Ps. 218,809 and Ps. 178,125 during the years ended December 31, 2016, 2015 and 2014, respectively. Domestic (Mexico only) non-current assets were Ps. 168,976 and Ps. 157,080, as of December 31, 2016, and December 31, 2015, respectively.

[2] Coca-Cola FEMSA's Asian division consists of the 51% equity investment in CCFPI (Philippines) which was acquired in 2013, and is accounted for using the equity method of accounting (see Note 10). The equity in earnings of the Asian division were Ps. 93, Ps. 86 and Ps. (334) in 2016, 2015 and 2014, respectively as is the equity method investment in CCFPI was Ps. 11,460, Ps. 9,996 and Ps. 9,021 this is presented as part of the Company's corporate operations in 2016, 2015 and 2014, respectively and thus disclosed net in the table above as part of the "Total Non Current assets" in the Mexico & Central America division. However, the Asian division is represented by the following investee level amounts, prior to reflection of the Company's 51% equity interest in the accompanying consolidated financial statements: revenues Ps. 22,768, Ps. 19,576 and Ps. 16,548, gross profit Ps. 7,678, Ps. 5,325 and Ps. 4,913, income before income taxes Ps. 486, Ps. 334 and Ps. 664, depreciation and amortization Ps. 2,163, Ps. 2,369 and Ps. 643, total assets Ps. 28,066, Ps. 22,002 and Ps. 19,877, total liabilities Ps. 9,634, Ps. 6,493 and Ps. 6,614, capital expenditures Ps. 3,342, Ps. 1,778 and Ps. 2,215, as of December 31, 2016, 2105 and 2014, respectively.

[3] South America includes Brazil, Argentina, Colombia, Chile and Venezuela, although Venezuela is shown separately above. South America revenues include Brazilian revenues of Ps. 48,924, Ps. 39,749 and Ps. 45,799 during the years ended December 31, 2016, 2015 and 2014, respectively. Brazilian non-current assets were Ps. 97,127 and Ps. 44,851, as of December 31, 2016 and December 31, 2015, respectively. South America revenues include Colombia revenues of Ps. 17,027, Ps. 14,283 and Ps. 14,207 during the years ended December 31, 2016, 2015 and 2014, respectively. Colombia non-current assets were Ps. 18,835 and Ps. 12,755, as of December 31, 2016 and December 31, 2015, respectively. South America revenues include Argentina revenues of Ps. 12,340, Ps. 14,004 and Ps. 9,714 during the years ended December 31, 2016, 2015 and 2014, respectively. Argentina non-current assets were Ps. 3,159 and Ps. 2,861, as of December 31, 2016 and December 31, 2015, respectively. South America revenues include Chile revenues of Ps. 36,631 and Ps. 7,586 during the year ended December 31, 2016 and 2015, respectively. Chile non-current assets were Ps. 19,367 and Ps. 7,031, as of December 31, 2016 and 2015, respectively.

Note 27. Future Impact of Recently Issued Accounting Standards not yet in Effect

The Company has not applied the following standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 15, Revenue from Contracts with Customers
IFRS 15, "Revenue from Contracts with Customers", was originally issued in May 2014 and supersedes IAS 18 "Revenue" and applies to annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. Revenue is recognized as control is passed, either over time or at a point in time. The Company does not plan on early adopting this standard. However, it has determined that the adoption of this standard will be accounted prospectively, as allowed by the corresponding transitional provisions which imply cumulative effect shown as an adjustment to retained earnings at the date of initial application.

The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance. In applying the revenue model to contracts within its scope, an entity will: 1) Identify the contract(s) with a customer; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations in the contract; 5) Recognize revenue when (or as) the entity satisfies a performance obligation. Also, an entity needs to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Company is currently in the process of performing its evaluation of the potential impacts that the adoption of IFRS 15 may represent to its consolidated financial statements. As part of such process, management is assessing the different revenue streams by reportable segment by applying them to the five-step revenue model, in order to determine whether its performance obligations are satisfied over time or at a point in time and to identify potential gaps with its existing accounting policies, which are in accordance with IAS 18.

With regards to the Coca-Cola FEMSA reportable segment, revenue streams are mainly related to the sale of finished products and delivery of promotional products, which are currently recognized in the income statement when the Company transfers such goods to its customers. This revenue stream is supported by contracts maintained with different companies of the retail industry through both traditional and modern channels, in which prices with these customers are constantly negotiated due to the high turnover of the Company's products and to remain competitive in the market. The Company is performing its evaluation of the potential impacts that the adoption of IFRS 15 may represent to its consolidated financial statements. As part of such process the Company is assessing whether such negotiations should be considered as modifications to the contracts and whether each transaction represents a separate performance obligation with the customer that is accounted for once the particular goods are delivered. Additionally, the Company is analyzing if any discounts offered to the client are already considered in each negotiation and recognized net of the related revenue and whether embedded derivatives may exist as well as significant financial components nor agent or principal considerations as it relates to its operation. As its new revenue accounting policy is developed and applied, potential impacts could be identified upon adoption of the new standard.

With regards to the FEMSA Comercio, revenue streams are mainly related to direct sales to the end consumers, in which discounts are also offered directly in the price per product available. This revenue stream is currently recognized in the income statement when the Company transfers such goods to its customers at the point of sale. Additionally, the Company provides certain services in which it acts as an agent and recognizes the corresponding net revenue in the income statement in the moment in which the transaction has been completed physically in the stores as meeting its performance obligation (i.e. sale of prepaid telephone minutes or other prepaid cards and services). The Company is analyzing whether embedded derivatives may exist as well assignificant financial components nor other agent or principal considerations as it relates to this segment. As its new revenue accounting policy is developed and applied, potential impacts could be identified upon adoption of the new standard.

With regards to the other companies, revenues are mainly related to contracts mainly directly with the end consumer, in which there are no discounts offered directly in the price of the contract. This revenue stream is currently recognized in the income statement when the Company transfers such services according to the conditions in the contract. The Company is analyzing whether embedded derivatives may exist as well assignificant financial components nor other agent or principal considerations as it relates to this segment. As its new revenue accounting policy is developed and applied, potential impacts could be identified upon adoption of the new standard.

The Company has yet to complete its evaluation of whether there will be a significant impact as a consequence of this standard's adoption in the consolidated financial statements.

IFRS 9, Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The transition to IFRS 9 differs by requirements and is partly retrospective and partly prospective.

The Company plans to adopt the new standard on the required effective date. The Company is analyzing whether an impact of all three aspects of IFRS 9 may exist based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. As its new accounting policy is developed and applied, potential impacts could be identified upon adoption of the new standard.

IFRS 16, Leases

IFRS 16 "Leases" was issued in January 2016 and supersedes IAS 17 "Leases" and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Company does not plan on early adopting this standard. However, it has determined that the adoption of this standard will be treated applying the prospective transitional provisions, which imply that adoption effects will be reflected directly against retained earnings and the applicable assets and liabilities as of January 1, 2019.

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

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis).

The Company is currently in the process of performing its evaluation of the potential impacts that the adoption of IFRS 16 may represent to its consolidated financial statements. As part of such process, management is assessing by reportable segment the different lease contracts, mainly those in which it acts as a lessee as well as other contracts in which the definition of a lease could be met independently of its legal form. Based on the ongoing assessment, it may expect a material impact from the adoption of IFRS 16 on its consolidated financial statements especially as relates to its FEMSA Comercio Retail, Fuel and Health reportable segments given that they have significant real estate leases.

The Company is in the process of quantifying the effects of IFRS 16 as well developing its accounting policy under the new standard, which includes evaluating those lease contracts that may qualify under the accounting exceptions provided by the standard for those assets considered as low value and developing its corresponding judgement on potentially subjective matters particularly in respect of the definition of a lease and the assessment of the lease term.

Amendments to IAS 7, Disclosure Initiative

The amendments to IAS 7 Statement of Cash Flows, require that the following changes in liabilities arising from financing activities be disclosed separately from changes in other assets and liabilities: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfill the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. The new disclosure requirements also relate to changes in financial assets if they meet the same definition.

These amendments are effective for annual periods beginning on or after January 1, 2017 with earlier application permitted, and entities need not provide comparative information when they first apply them. The Company is in the process of assessing the potential impacts from the adoption of these amendments in its financial statements.

Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Company.

Note 28. Subsequent Events

On January 25, 2013, the Company closed the acquisition of 51% of CCFPI for an amount of $688.5 U.S. dollars (Ps. 8,904) in an all-cash transaction. As part of the agreement, on January 25, 2017 the veto right held by TCCC over certain operating decisions has expired and, as a result, Coca-Cola FEMSA obtained the control of CCFPI, because by contractual agreement joint approval over operating decisions is no longer required. Consequently the Company has obtained control without a transfer of consideration. As a result of the above, the company will consolidate in its financial statements the Philippine figures from February 2017.

CCFPI is a bottler of Coca-Cola trademark products which operates in Philippines. This acquisition was made to strengthen the Company's position in Asia. As mentioned in Note 19.6 the Company has a Call Option related to the remaining 49% ownership interest in CCFPI which is maintained under the same conditions.

Since January 25, 2017, Coca-Cola FEMSA control CCFPI since all decisions relating to the operation and management of CCFPI's business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company. Commencing on February 1, 2017, Coca-Cola FEMSA started consolidating CCFPI's financial results in the financial statements. The results for the first quarter of 2017 and future results in 2017 will reflect a reduction in our share of the profit of associates and joint ventures accounted for using the equity method as a result of this consolidation.

The Company estimate of fair value of CCFPI net assets acquired to the date of acquisition (February 2017) is as follows:

Total current assets	Ps.	9,372
Total non-current assets		18,371
Distribution rights		4,026
Total assets		31,769
Total liabilities		(9,814)
Net assets acquired		21,955
Acquisition date fair value of the equity interest in the acquire (in substitution to nil or zero consideration)		21,482
Non-controlling interest		(10,758)
Net assets acquired attributable to the parent company		11,197
Goodwill		-
Carrying value of CCFPI investment derecognized		11,460
Loss as a result of remeasuring to fair value the equity interest		263
Gain on derecognition of other comprehensive income		2,783
Total gain on a bargain purchase	Ps.	2,520

On January 2017, FEMSA Comercio through its subsidiary Cadena Comercial USA Corporation, LLC., completed the acquisition of an additional 20% stake in Specialty's Cafe & Bakery, reaching 100% of shareholding.

On February 13, 2017, Heineken announced that it had reached an agreement to acquire Brasil Kirin Holding S.A., for a consideration of €. 664. The transaction is expected to close in the first half of 2017. The Company will recognize results of operation of this business combination through the recognition of the equity method in Heineken, once it has been incorporated in the consolidation of Heineken.

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