CONSOLIDATED FINANCIAL STATEMENTS

ANNUAL REPORT OF THE AUDIT COMMITTEE

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

To the Board of Directors
Fomento Económico Mexicano, S.A.B. de C.V.

In conformity with the provisions of the Securities Market Act, the corporate charter of this Company and the charter of the Audit Committee of Fomento Económico Mexicano, S.A.B. de C.V. ("the Company"), I hereby inform to you the activities carried out by the Audit Committee (the "Committee") during the year ended December 31, 2019. In carrying out our work, we abided by the recommendations established in the Code of Best Corporate Practices issued by the Business Coordinating Council of Mexico, the applicable rules issued by the Securities and Exchange Commission (SEC) and the New York Stock Exchange (NYSE) of the United State of America, as well as the applicable provisions established by the National Banking and Securities Commission of Mexico.

Based on the previously approved work program, the Committee convened formally four times on a quarterly basis and on additional occasions, as deemed necessary, to address issues that merited its participation, and the Committee relieved the issues that by legal provision was bound. The most relevant activities carried out by the Committee are presented below:

Risk Assessment

Based on the information presented by the Management and the External and Internal Auditors, the Committee evaluated the effectiveness of the risk management system established for the identification, assessment and management of business risks of the Company, as well as for the implementation of measures to ensure its effective and efficient operation.

The Committee in conjunction with the Management and both External and Internal Auditors reviewed the critical risk factors which may affect the operations and assets of the Company, assessing whether they have been properly identified and managed.

Considering that the cybersecurity risk continues to be a significant risk area for the Company, the Committee devoted special attention during the year to monitor the progress of the main vulnerabilities identified during the corresponding cybersecurity assessments, as well as to review the proper implementation of the information technology initiatives that guarantee the continuity of the operations, and the protection of the assets and equity of the Company.

ANNUAL REPORT OF THE AUDIT COMMITTEE continued

Internal Control

The Committee oversaw that the Management, in conformity with its responsibilities regarding internal control, had established the general guidelines and the necessary procedures for their appropriate application and compliance. This process included presentations to the Audit Committee by the responsible areas of the most important subsidiaries. Additionally, were properly followed comments and remarks made in this regard by External Auditors as a result of their findings.

The Committee observed the actions carried out by the Company in order to comply with section 404 of Sarbanes-Oxley Act and similar provisions issued by the National Banking and Securities Commission of Mexico, both related to the internal control system. During this process, the Committee made a follow up on main preventive and corrective actions implemented concerning internal control issues, as well as the presentation of the required information to the authorities.

External Audit

The Committee recommended to the Board of Directors the appointment of the External Auditors of the Company for the fiscal year 2019. For this purpose, The Committee verified their independence, under the criteria and rules applicable and established by the SEC and NYSE, as well as by the requirements established in the Law and in the general provisions applicable to entities and issuers supervised by the National Banking and Securities Commission that engage in external audit services of financial statements, which entered into force on August 1st, 2019. The Committee analyzed the approach and work program of the External Auditors, as well as their coordination with the Internal Audit area.

The Committee reviewed and submitted for approval of the Board of Directors, the Audit Committee Charter, in order to be aligned with the new provisions and regulations contained in the Single Circular of External Auditors, issued by the National Banking and Securities Commission of Mexico. Also, the Committee verified the proper compliance with these provisions, particularly those related to the responsibilities of the Committee and the requirements currently applicable to external auditors.

The Committee kept frequent and direct communication with the External Auditors regarding the progress of their work and the observations they presented. The Committee was timely informed of the External Auditor conclusions and reports concerning the annual and quarterly financial statements, and it followed up on the implementation of the observations and recommendations they developed during their work.

The Committee authorized the fees paid to the External Auditors for audit services and other permitted services, ensuring that they do not interfere with their independence and that they comply with the provisions established in this regard by this Committee and by the Board of Directors.

ANNUAL REPORT OF THE AUDIT COMMITTEE continued

Internal Auditing

The Internal Audit area reports to the Audit Committee in order to maintain its independence and objectivity. Regarding the interaction of the Committee with Internal Auditors, the following can be pointed out:

The Committee reviewed and approved appropriately, the Internal Audit program and annual budget. For its preparation, Internal Audit participated in the risk assessment process and in the validation of the internal control system, to comply with the different applicable provisions.

The Committee received periodic reports regarding the progress of the approved work program, and the variations that may have existed, as well as the corresponding causes.

The Committee followed up on the observations and suggestions that Internal Auditors developed, as well as their timely correction.

The Committee oversaw that a good annual training plan for internal auditors had properly been carried out.

The Committee reviewed and discussed with the Chief Audit Executive the results of the performance appraisal of Internal Audit service, performed by the business units and by the Committee itself.

Financial Information, Accounting Policies and Reports to the Third Parties

The Committee reviewed with the officials responsible the reasonableness and consistency of quarterly and annual financial statements of the Company and recommended to the Board of Directors its approval and authorization for its publication. As part of this process, the Committee took into account the opinion and observations of the External Auditors, and validated that the criteria, accounting policies and information used by the Management to prepare the financial information for the fiscal year 2019 were adequate, sufficient and that they had been applied consistently with respect to the previous year.

The review performed by the Committee also included the reports and any other financial information required by the Regulatory Bodies in Mexico and in the United States of America, which, based on the results, the Committee recommended to the Board of Directors for their approval and authorization for publication.

Compliance with Applicable Laws and Regulations, Legal Issues and Contingencies

The Committee ensured the existence and reliability of the controls implemented by the Company related to compliance with the different legal provisions to which is obligated, assuring, when applicable, that appropriate disclosures were made in the Financial Statements.

The Committee periodically reviewed the existing fiscal, legal and labor contingencies in the Company and its most important Subsidiaries, overseeing the effectiveness of the procedure implemented for its identification and monitoring, as well as its adequate disclosure and recording.

ANNUAL REPORT OF THE AUDIT COMMITTEE continued

Management presented the main guidelines that govern the anti-corruption policy, as well as the dissemination and validation plans for compliance, which the Committee found adequate.

Code of Conduct

The Committee reviewed the updated version of the Company's Code of Ethics which, among other changes, incorporated the renovation of its values, as well as provisions regarding compliance with the laws against money laundering and anti-corruption in the countries where the company operates. Subsequently, the Committee recommended the approval of the Company's Code of Ethics to the Board of Directors.

With the support of Internal Audit, the Committee verified the compliance, by all employees and Board members, with the Company Code of Ethics, as well as the existence of adequate processes to update and disseminate it among employees, including the application of sanctions in those cases where violations were detected.

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

Training

To comply with the training requirements of Committee´s charter, during the year, its members attended specific courses on relevant topics such as internal controls, risk management, cybersecurity, regulatory compliance and auditing.

Administrative Activities

In addition to the formal sessions of the Audit Committee, its members held additional sessions with the Management to stay informed of the Company's progress and the relevant and unusual activities and events. The Committee also met with both External and Internal Auditors as a specific topic on the agenda, without the presence of the Management, to discuss the progress of their work, limitations they could have had and to facilitate any private communication they wished to have with the Committee.

In this fiscal year, The Committee did not consider necessary to request the support and opinion of independent experts as the matters dealt in each session were duly supported by the information presented and therefore the conclusions reached were satisfactory for the members of the Committee.

The Chairman of the Audit Committee reported quarterly to the Board of Directors the relevant issues arising from the work of the Committee.

The Committee verified the compliance with the requirements of education and experience by the financial expert of the Committee and the independence requirements for each member in accordance with the rules applicable in this matter.

ANNUAL REPORT OF THE AUDIT COMMITTEE continued

The work carried out by the Committee was duly documented in the prepared minutes of each session, which were reviewed and approved in a timely manner by its members.

The Committee performed the annual self-assessment and delivered the results to the Chairman of the Board of Directors. The results of the self-assessment were very satisfactory.

Sincerely

March 11th, 2020

Alberto Tiburcio Celorio
Chairman of the Audit Committee
Fomento Económico Mexicano, S.A.B. de C.V.

INDEPENDENT AUDITORS' REPORT

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES 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 subsidiaries (collectively the "Company"), which comprise the consolidated statement of financial position as at December 31, 2019 and 2018, and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for each of the three years in the period ended as at December 31, 2019, 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 Company as at December 31, 2019 and 2018 and its financial performance and its cash flows for each of the three years in the period ended as at December 31, 2019, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Company 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 to 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 the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole and in forming the auditor's 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.

Impairment testing of distribution rights and goodwill

Description of the key audit matter

At December 31, 2019, the Company has distribution rights, trade marks and goodwill with an aggregate carrying value of approximately $ 135,049 million. As explained in Note 13 to the consolidated financial statements, distribution rights, trade marks and goodwill are tested for impairment annually at the cash Generating Unit Level (CGUs). 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.

Auditing management's annual distribution rights, trade marks and goodwill impairment test was complex and highly judgmental due to the significant estimation required to determine the fair value for CGUs. In particular, the fair value estimate was sensitive to significant assumptions, such as the weighted average cost of capital, revenue growth rate, operating margin, working capital and terminal value, which are affected by expected future market or economic conditions, particularly those in emerging markets.

How our audit addressed the matter

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's distribution rights, trade marks and goodwill impairment review processes, including controls over management's review of the significant assumptions described above, projected financial information and the valuation model used to develop such estimates.

To test the estimated fair value of the Company's CGUs, we performed audit procedures that included, among others, assessing methodologies and testing the significant assumptions discussed above and the underlying data used by the Company in its analysis. We assessed the historical accuracy of management's estimates and projections by (i) comparing them to actual and obtaining appropriate explanations for the differences (ii) examining and challenging management's support for the current estimates and projections (iii) comparing them to industry and economic trends and (iv) evaluating whether changes to the Company's business model, customer base or product mix and other factors would significantly affect the projected financial information and, thus the fair value of the CGUs that would result from changes in the assumptions, focusing on the projected compound annual growth rates and weighted average cost of capital, mainly. We also involved our valuation specialist to assist in the evaluation of the significant assumptions and methodology used by the Company.

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

Recoverability of deferred tax assets

Description of the key audit matter

As described in Note 25 to the consolidated financial statements, the Company had recognized deferred tax assets arising from net operating loss carryforwards (NOLs) of approximately $10,309 million and recoverable tax credits of approximately $1,855 million. The NOLs were generated primarily by the Brazilian and Mexican operations and attributable to tax deductions of goodwill amortization generated from recent business acquisitions in Brazil and to remeasurement effects of foreign currency denominated borrowings by the Mexico operation. The recoverable tax credits correspond to income tax credits generated in Mexico arising from dividends received from foreign subsidiaries.

Auditing management's assessment of the realizability of its deferred tax assets arising from NOLs and recoverable tax credits involved complex auditor judgment because management's estimate of realizability is based on assessing the probability, timing and sufficiency of future taxable profits, expected reversals of taxable temporary differences and available tax planning opportunities that will create future taxable profits; these projections are sensitive because they can be affected by variabilities in management's projections and future market and economic conditions.

How our audit addressed the matter

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls that address the risks of material misstatement relating to the realizability of deferred tax assets, including controls over management's projections of future taxable income, scheduled analysis of the future reversal of existing taxable temporary differences and the identification of available tax planning opportunities.

To test the realizability of deferred tax assets arising from NOLs and recoverable tax credits, we performed audit procedures, among others, on the review of management´s estimates of future taxable income in Brazil and Mexico by assessing the estimates underlying the projected financial information, such as growth rates, discount rates, and other key assumptions and comparing them with the industry and economic trends and evaluating whether changes to the Company's business model and other factors would significantly affect the projected financial information. We involved our internal specialists in performing these procedures.

In addition, with the assistance of our tax professionals, we assessed the application of the tax laws, including the Company's future tax planning opportunities and tested the Company´s scheduling of the timing and amount of reversal of taxable temporary differences.

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

Exclusion of the ICMS on federal sale taxes (PIS / COFINS) calculate basis

Description of the key audit matter

As disclosed in Note 25.1.1 to the consolidated financial statements, the Company recorded an asset within the recoverable taxes caption in the Consolidated Statement of Financial Position as of December 31, 2019, related to federal sales tax ("PIS COFINS") paid in prior years in Brazil. This resulted from a ruling in favor of the Brazilian subsidiary of the Company by the Brazilian Federal Supreme Court (STF) that stated that the inclusion of the ICMS in the PIS and COFINS taxable basis is unconstitutional and, consequently, allowed the Brazilian subsidiary the right to claim the excess PIS COFINS paid as credits following certain administrative procedures.

Recoverability of the taxes involves a significant degree of complexity involved in determining the amounts and related supporting documents required by the relevant authorities to substantiate the determination of the excess amount of PIS COFINS and the proper timing of recognition.

How our audit addressed the matter

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over taxes, including controls over the determination of the recoverable amount of such credits and the evaluation when the recoverable tax credit is virtually certain.

Our audit procedures included, among others, the assessment of the legal, accounting and tax supporting documentation, including the assumptions and judgments made by management for the measurement and recoverability of the recorded tax credits by reviewing the court decision, inspecting tax evidence and documentation that supports the tax credit calculation, assessing the recoverability timeframe by corroborating management´s estimation to recover considering the amount of federal taxes expected to be paid in the near future, and inspecting the credits claim protocol documentation presented by the Company to the tax authorities, among other procedures . Additionally, we have engaged our tax professionals to support the audit team in performing the procedures mentioned above.

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

Adoption of International Financial Reporting Standard 16 "Leases"

Description of the key audit matter

As disclosed on Notes 2.4.1, 3.16 and 12 to the consolidated financial statements, the Company adopted IFRS 16 "Leases" on January 1, 2019. As a result of this adoption, as of December 31, 2019 the Company has recognized a right of use assets for $52,684 million and lease liabilities for $54,679 million using the modified retrospective method. The Company applied the new requirements to all contracts identified as leases under the previous accounting standard.

Given the complexity, judgement and subjectivity of the terms in some of the contracts, and the determination of the incremental borrowing rate, which have a significant impact in management evaluation for its initial recognition and subsequent measurement, we have determined this area to be a key audit matter.

How our audit addressed the matter

We obtained an understanding of the design and we tested the operating effectiveness of controls of the implementation process of IFRS 16. We evaluated the completeness and accuracy of the initial and subsequent accounting recognition and measurement of leases implemented by the Company.

Our audit procedures to test the IFRS 16 adoption and subsequent measurement included, were based on a selective sample to test the completeness and accuracy of the underlying data. We involved our specialists to assist us with our audit procedures for determining the incremental borrowing rate, evaluating the leases terms based on contract's characteristics, and all other significant assumptions.

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

Other information included in the Company's 2019 Annual Report

Other information consists of the information included in the Company's 2019 Annual Report to be presented to the stockholders and the Annual Report to be presented to the Comision Nacional Bancaria y de Valores ("CNBV"), other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The other information is expected to be made available to us after the date of this auditor's report.

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 identified above when it becomes available 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.

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 IFRS, and for such internal control as management determines is necessary to enable the preparation of the 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company'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 based on 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 Company'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 Company'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 Company 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 Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with 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 the Audit Committee with 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 partner in charge of 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
Monterrey, Mexico
March 13, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

As of December 31, 2019 and 2018. In millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.).

	NOTE		2019 [1]		2019 [2]		2018
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	5	$	3,476	Ps.	65,562	Ps.	62,047
Investments	6		656		12,366		30,924
Trade accounts receivables, net	7		1,571		29,633		28,164
Inventories	8		2,175		41,023		35,686
Recoverable taxes	25		995		18,761		16,488
Other current financial assets	9		61		1,146		878
Other current assets	9		217		4,088		3,420
Total current assets			9,151		172,579		177,607
NON CURRENT ASSETS							
Equity accounted investees	10		5,168		97,470		94,315
Property, plant and equipment, net	11		6,072		114,513		108,602
Right-of-use assets, net	12		2,793		52,684		–
Intangible assets, net	13		7,771		146,562		145,610
Deferred tax assets	25		1,088		20,521		16,543
Other non-current financial assets	14		1,203		22,680		23,387
Other non-current assets	14		558		10,532		10,317
Total non-current assets			24,653		464,962		398,774
TOTAL ASSETS		$	33,804	Ps.	637,541	Ps.	576,381
LIABILITIES AND EQUITY							
CURRENT LIABILITIES							
Bank loans and notes payable	19	$	209	Ps.	3,935	Ps.	2,436
Current portion of non-current debt	19		651		12,269		11,238
Current portion of lease liabilities	12		392		7,387		–
Interest payable			47		895		964
Trade payable			3,032		57,178		52,101
Accounts payable			1,034		19,498		13,568
Taxes payable			621		11,717		12,264
Other current financial liabilities	26		1,254		23,655		8,893
Total current liabilities			7,240		136,534		101,464
NON-CURRENT LIABILITIES							
Bank loans and notes payable	19		5,395		101,747		114,990
Lease liabilities	12		2,508		47,292		–
Post-employment benefits	17		337		6,347		4,699
Deferred tax liabilities	25		368		6,946		5,886
Other non-current financial liabilities	26		132		2,481		2,232
Provisions and other non-current liabilities	26		552		10,443		11,568
Total non-current liabilities			9,292		175,256		139,375
TOTAL LIABILITIES			16,532		311,790		240,839
EQUITY							
Controlling interest:							
Capital stock			178		3,348		3,348
Additional paid-in capital			963		18,162		26,850
Retained earnings			12,184		229,794		217,802
Other comprehensive income			36		685		9,053
Total controlling interest			13,361		251,989		257,053
Non-controlling interest	22		3,911		73,762		78,489
TOTAL EQUITY			17,272		325,751		335,542
TOTAL LIABILITIES AND EQUITY		$	33,804	Ps.	637,541	Ps.	576,381

[1] Convenience translation to U.S. dollars ($) – See Note 2.2.3

[2] The Company initially adopted IFRS 16 at January 1, 2019 using the modified retrospectively approach under which the comparative information is not restated. – See Note 2.4.1

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, 2019, 2018 and 2017.
In millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.), except for earnings per share amounts.

	NOTE		2019 [1,2]		2019 [2]		2018		2017 [3]
Net sales	28	$	26,726	Ps.	504,059	Ps.	468,894	Ps.	439,239
Other operating revenues			141		2,652		850		693
Total revenues			26,867		506,711		469,744		439,932
Cost of goods sold			16,714		315,230		294,574		277,842
Gross profit			10,153		191,481		175,170		162,090
Administrative expenses			1,057		19,930		17,313		15,222
Selling expenses			6,462		121,871		114,573		105,880
Other income	20		54		1,013		673		31,951
Other expenses	20		260		4,905		2,947		33,866
Interest expense	19		749		14,133		9,825		11,092
Interest income			168		3,168		2,832		1,470
Foreign exchange (loss) gain, net			(131)		(2,467)		(248)		4,934
Monetary position gain, net			14		260		216		1,590
Market value loss on financial instruments			17		320		355		204
Income before income taxes from continuing operations and share in the profit of equity accounted investees			1,713		32,296		33,630		35,771
Income taxes	25		555		10,476		10,169		10,213
Share in the profit of equity accounted investees, net of tax	10		330		6,228		6,252		7,923
Net income from continuing operations			1,488		28,048		29,713		33,481
Net income from discontinued operations	4		–		–		3,366		3,726
CONSOLIDATED NET INCOME			1,488		28,048		33,079		37,207
Controlling interest from continuing operations			1,098		20,699		22,560		40,864
Controlling interest from discontinued operations			–		–		1,430		1,545
Non-controlling interest from continuing operations			390		7,349		7,153		(7,383)
Non-controlling interest from discontinued operations			–		–		1,936		2,181
CONSOLIDATED NET INCOME		$	1,488	Ps.	28,048	Ps.	33,079	Ps.	37,207
Basic earnings per share from continuing operations									
Per series "B" share	24	$	0.05	Ps.	1.03	Ps.	1.13	Ps.	2.04
Per series "D" share	24		0.07		1.29		1.41		2.55
Basic earnings per share from discontinued operations									
Per series "B" share	24		–		–		0.07		0.08
Per series "D" share	24		–		–		0.09		0.10
Diluted earnings per share from continuing operations									
Per series "B" share	24		0.05		1.03		1.13		2.04
Per series "D" share	24		0.07		1.29		1.41		2.55
Diluted earnings per share from discontinued operations									
Per series "B" share	24		–		–		0.07		0.08
Per series "D" share	24		–		–		0.09		0.10

(1) Convenience translation to U.S. dollars ($) – See Note 2.2.3

(2) The Company initially adopted IFRS 16 at January 1, 2019 using the modified retrospectively approach under which the comparative information is not restated. – See Note 2.4.1

(3) Revised to reflect the discontinued Philippines operations of Coca-Cola FEMSA – See Note 4.2.1

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, 2019, 2018 and 2017.
In millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.).

	NOTE		2019 [1]		2019		2018		2017 [2]
CONSOLIDATED NET INCOME		**$**	**1,488**	**Ps.**	**28,048**	Ps.	33,079	Ps.	37,206
Items that will be reclassified to consolidated net income in subsequent periods, net of tax:									
Valuation of the effective portion of derivative financial instruments	21		**(52)**		**(980)**		(592)		(439)
Income (loss) on hedge of net investments in foreign operations	19		**53**		**991**		724		(1,259)
Exchange differences on the translation of foreign operations and equity accounted investees			**(666)**		**(12,556)**		(13,174)		14,482
Share of other comprehensive income (loss) of equity accounted investees	10		**56**		**1,058**		(360)		(2,013)
Total items that will be reclassified			**(609)**		**(11,487)**		(13,402)		10,771
Items that will not to be reclassified to consolidated net income in subsequent periods, net of tax:									
Loss due to changes in the fair value in equity financial instruments			**–**		**–**		(1,039)		–
Share of other comprehensive income (loss) of equity accounted investees			**(21)**		**(389)**		597		69
Remeasurements of the net defined benefit liability			**(58)**		**(1,090)**		551		(7)
Total items that will not be reclassified			**(79)**		**(1,479)**		109		62
Other items of comprehensive (loss) income, net of tax			**(688)**		**(12,966)**		(13,293)		10,833
Consolidated comprehensive income, net of tax		**$**	**800**	**Ps.**	**15,082**	Ps.	19,786	Ps.	48,039
Controlling interest comprehensive income			**654**		**12,331**		14,776		46,052
Reattribution to non-controlling interest of other comprehensive income by acquisition of Vonpar			**–**		**–**		–		(51)
Reattribution to non-controlling interest of other comprehensive income by acquisition of YZA			**–**		**3**		–		–
Reattribution to non-controlling interest of other comprehensive income by acquisition of Socofar			**(3)**		**(49)**		–		–
Controlling interest comprehensive income		**$**	**651**	**Ps.**	**12,285**	Ps.	14,776	Ps.	46,001
Non-controlling interest comprehensive income			**146**		**2,751**		5,010		1,987
Reattribution from controlling interest of other comprehensive income by acquisition of Vonpar			**–**		**–**		–		51
Reattribution from controlling interest of other comprehensive income by acquisition of YZA			**–**		**(3)**		–		–
Reattribution from controlling interest of other comprehensive income by acquisition of Socofar			**3**		**49**		–		–
Non-controlling interest comprehensive income			**149**		**2,797**		5,010		2,038
Consolidated comprehensive income, net of tax		**$**	**800**	**Ps.**	**15,082**	Ps.	19,786	Ps.	48,039
Out of which:									
Controlling comprehensive income from continuing operations, net of tax		**$**	**651**	**Ps.**	**12,285**	Ps.	4,540	Ps.	20,895
Controlling comprehensive income from discontinued operations, net of tax			**–**		**–**		4,804		1,790
Non-controlling comprehensive income from continuing operations, net of tax			**149**		**2,797**		10,236		25,106
Non-controlling comprehensive income from discontinued operations, net of tax			**–**		**–**		206		248

[1] Convenience translation to U.S. dollars ($) – See Note 2.2.3
[2] Revised to reflect the discontinued operations of Coca-Cola FEMSA Philippines– See Note 4.2.1
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, 2019, 2018 and 2017.
In millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.).

	Notes	Capital Stock	Additional paid-in capital	Retained earnings	Fair value in equity financial instrument	Valuation of the effective portion of derivative financial instrument	Exchange differences on the translation of foreign operations and equity accounted investees	Remeasurements of the net defined benefit liability	Total controlling interest	Non-controlling interest	Total equity
Balances as of January 1, 2017		Ps. 3,348	Ps. 25,733	Ps. 168,796	Ps. –	Ps. 2,663	Ps. 14,553	Ps. (3,189)	Ps. 211,904	Ps. 74,266	Ps. 286,170
Consolidated net income		–	–	42,408	–	–	–	–	42,408	(5,202)	37,206
Other comprehensive income (loss), net		–	–	–	–	(47)	3,607	33	3,593	7,240	10,833
Total other comprehensive income (loss)		–	–	42,408	–	(47)	3,607	33	46,001	2,038	48,039
Dividends declared and paid	22, 23	–	–	(8,636)	–	–	–	–	(8,636)	(3,622)	(12,258)
Issuance of share-based compensation plans	18	–	(89)	–	–	–	–	–	(89)	50	(39)
Capitalization of issued shares to former owners of Vonpar in Coca-Cola FEMSA	4	–	1,164	–	–	2	47	2	1,215	2,867	4,082
Acquisitions of non-controlling interest	4	–	–	–	–	–	–	–	–	(322)	(322)
Contribution from non-controlling interest	22	–	–	–	–	–	–	–	–	272	272
Recognition of non-controlling interest upon consolidation of CCFPI	4	–	–	–	–	–	–	–	–	11,072	11,072
Recycling from net defined benefit liability on partial disposal of equity accounted investees	15	–	–	(596)	–	–	–	596	–	–	–
Other movements in equity accounted investees, net	10	–	–	(104)	–	–	–	–	(104)	–	(104)
Balances as of December 31, 2017		**Ps. 3,348**	**Ps. 26,808**	**Ps. 201,868**	**Ps. –**	**Ps. 2,618**	**Ps. 18,207**	**Ps. (2,558)**	**Ps. 250,291**	**Ps. 86,621**	**Ps. 336,912**
Balances as of January 1, 2018		3,348	26,808	201,868	–	2,618	18,207	(2,558)	250,291	86,621	336,912
Accounting standard adoption effects (IFRS 9), net of tax	2	–	–	(229)	–	–	–	–	(229)	(150)	(379)
Adoption of IAS 29 for Argentina		–	–	1,269	–	–	–	–	1,269	1,418	2,687
Adjusted balance at January 1, 2018		3,348	26,808	202,908	–	2,618	18,207	(2,558)	251,331	87,889	339,220
Consolidated net income		–	–	23,990	–	–	–	–	23,990	9,089	33,079
Other comprehensive income (loss), net		–	–	–	(491)	(727)	(8,988)	992	(9,214)	(4,079)	(13,293)
Total other comprehensive income (loss)		–	–	23,990	(491)	(727)	(8,988)	992	14,776	5,010	19,786
Dividends declared and paid	22,23	–	–	(9,220)	–	–	–	–	(9,220)	(3,713)	(12,933)
Issuance of share-based compensation plans	18	–	42	–	–	–	–	–	42	31	73
Contribution from non-controlling interest	22	–	–	–	–	–	–	–	–	412	412
Derecognition upon disposal of non-controlling interest in Philippines	4	–	–	–	–	–	–	–	–	(11,140)	(11,140)
Other movements in equity accounted investees, net of tax	10	–	–	124	–	–	–	–	124	–	124
Balances as of December 31, 2018		Ps. 3,348	Ps. 26,850	Ps. 217,802	Ps. (491)	Ps. 1,891	Ps. 9,219	Ps. (1,566)	Ps. 257,053	Ps. 78,489	Ps. 335,542

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, 2019, 2018 and 2017.
In millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.).

	Notes	Capital Stock	Additional paid-in capital	Retained earnings	Fair value in equity financial instrument	Valuation of the effective portion of derivative financial instrument	Exchange differences on the translation of foreign operations and equity accounted investees	Remeasurements of the net defined benefit liability	Total controlling interest	Non-controlling interest	Total equity
Balances as of January 1, 2019		Ps. 3,348	Ps. 26,850	Ps. 217,802	Ps. (491)	Ps. 1,891	Ps. 9,219	Ps. (1,566)	Ps. 257,053	Ps. 78,489	Ps. 335,542
Accounting standard adoption effects (IFRIC 23), net of tax	2	–	–	(93)	–	–	–	–	(93)	(69)	(162)
Adjusted balance at January 1, 2019		3,348	26,850	217,709	(491)	1,891	9,219	(1,566)	256,960	78,420	335,380
Consolidated net income		–	–	20,699	–	–	–	–	20,699	7,349	28,048
Other comprehensive income (loss), net		–	–	–	–	(562)	(6,647)	(1,205)	(8,414)	(4,552)	(12,966)
Total other comprehensive income (loss)		–	–	20,699	–	(562)	(6,647)	(1,205)	12,285	2,797	15,082
Dividends declared and paid	22,23	–	–	(9,692)	–	–	–	–	(9,692)	(3,945)	(13,637)
Issuance of share-based compensation plans	18	–	33	–	–	–	–	–	33	(12)	21
Other acquistions and remeasurements		–	–	–	–	–	–	–	–	32	32
Other acquisition of non-controlling interest	1,22	–	(8,721)	–	–	32	17	(3)	(8,675)	(3,530)	(12,205)
Other movements in equity accounted investees, net of tax	10	–	–	1,078	–	–	–	–	1,078	–	1,078
Balances as of December 31, 2019		Ps. 3,348	Ps. 18,162	Ps. 229,794	Ps. (491)	Ps. 1,361	Ps. 2,589	Ps. (2,774)	Ps. 251,989	Ps. 73,762	Ps. 325,751

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

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, 2019, 2018 and 2017.
In millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.).

		2019 (1,2)		2019 (2)		2018		2017 (3)
OPERATING ACTIVITIES								
Income before income taxes from discontinued operations	$	–	Ps.	–	Ps.	1,308	Ps.	1,265
Income before income taxes from continuing operations	$	2,043	Ps.	38,524	Ps.	39,882	Ps.	43,694
Non-cash items adjustments:								
Operating (income) expenses		(68)		(1,279)		1,687		3,166
Non-operating expenses		–		–		–		25,817
Depreciation		1,239		23,361		14,698		13,799
Amortization		130		2,449		2,539		1,841
Gain on sale of long-lived assets		4		68		(174)		(210)
(Gain) loss on sale of shares		–		–		–		(30,112)
Disposal of long-lived assets		46		861		518		451
Impairment of long-lived assets		54		1,018		432		2,063
Share of the profit of equity accounted investees, net of taxes		(330)		(6,228)		(6,252)		(7,923)
Interest income		(168)		(3,168)		(2,832)		(1,470)
Interest expense		749		14,133		9,825		11,092
Foreign exchange loss (gain), net		131		2,467		248		(4,934)
Monetary position (gain), net		(14)		(260)		(216)		(1,590)
Market value loss on financial instruments		17		320		355		204
Net cash flow from operating activities before changes in operating accounts		3,833		72,266		60,710		55,888
Trade accounts receivable and other current assets		(149)		(2,818)		(2,426)		(11,182)
Other current financial assets		(14)		(268)		379		1,417
Inventories		(299)		(5,635)		(3,809)		(2,808)
Derivative financial instruments		2		41		(23)		18
Trade accounts payable and other accounts		542		10,230		4,906		7,344
Other non-current liabilities		18		345		752		309
Other current financial liabilities		8		158		(544)		1,769
Employee benefits paid		(42)		(790)		(412)		(661)
Net cash generated from operations		3,899		73,529		59,532		52,094
Income taxes paid		(630)		(11,891)		(12,603)		(18,659)
Net cash generated by operating activities from discontinued operations		–		–		654		5,435
Net cash generated by operating activities from continuing operations		3,268		61,638		46,929		33,435

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, 2019, 2018 and 2017.
In millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.).

	2019 [1,2]	2019 [2]	2018	2017 [3]
INVESTING ACTIVITIES				
Proceeds from the sale of subsidiary, net of cash disposed	–	–	7,649	–
Acquisition by Coca-Cola FEMSA, net of cash acquired (see Note 4)	–	–	(5,692)	–
Deconsolidation in Coca-Cola FEMSA Venezuela (see Note 3.3)	–	–	–	(170)
Other acquisitions, net of cash acquired (see Note 4)	(374)	(7,136)	(321)	–
Equity accounted investees	(133)	(2,516)	(98)	(889)
Other equity investments	(765)	(14,419)	–	–
Partial disposal of investment in Heineken Group	–	–	–	50,790
Disposal (purchase) of investments	1,558	29,381	(40,487)	(2,539)
Interest received	172	3,253	2,736	1,470
Derivative financial instruments	(11)	(203)	99	(35)
Dividends received from equity accounted investees	160	3,026	2,927	3,277
Property, plant and equipment acquisitions	(1,216)	(22,926)	(21,584)	(19,484)
Proceeds from disposal of property, plant and equipment	35	655	467	491
Acquisition of intangible assets	(117)	(2,197)	(1,793)	(3,003)
Investment in other assets	(63)	(1,179)	(1,182)	(1,222)
Collections of other assets	22	415	166	94
Investment in other financial assets	(19)	(285)	(65)	(184)
Net cash (used in) generated by investing activities from discontinued operations	–	–	(962)	2,820
Net cash (used in) generated by investing activities from continuing operations	(751)	(14,132)	(57,178)	28,596
FINANCING ACTIVITIES				
Proceeds from borrowings	788	18,280	16,155	13,599
Payments of bank loans	(1,213)	(26,301)	(17,182)	(18,130)
Interest paid	(345)	(6,503)	(6,799)	(6,547)
Derivative financial instruments	(37)	(690)	(2,288)	(1,579)
Dividends paid	(723)	(13,629)	(12,933)	(12,450)
Acquisition of non-controlling interest	(39)	(728)	–	(663)
Interest paid derived from leases	(238)	(4,498)	–	–
Payments of leases	(231)	(4,350)	–	–
Other financing activities	(1)	(15)	36	634
Financing from Vonpar's acquisition	–	–	–	4,082
Net cash used in financing activities from discontinued operations	–	–	(37)	(485)
Net cash (used) generated by financing activities from continuing operations	(2,040)	(38,433)	(23,011)	(21,054)
Increase (decrease) in cash and cash equivalents from continuing operations	477	9,073	(33,258)	40,977
Increase in cash and cash equivalents from discontinued operations	–	–	963	9,035
Cash and cash equivalents at the beginning of the period	3,290	62,047	96,944	43,637
Effects of exchange rate changes and inflation effects on cash and cash equivalents held in foreign currencies	(291)	(5,558)	(2,602)	3,295
Cash and cash equivalents at the end of the period	$ 3,476	Ps. 65,562	Ps. 62,047	Ps. 96,944

(1) Convenience translation to U.S. dollars ($) – See Note 2.2.3

(2) The Company initially adopted IFRS 16 at January 1, 2019 using the modified retrospectively approach under which the comparative information is not restated. – See Note 2.4.1

(3) Revised to reflect the discontinued Philippines operations of Coca-Cola FEMSA – See Note 4.2.1

The accompanying notes are an integral part of these consolidated statements of cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

For the years ended December 31, 2019, 2018 and 2017.
Amounts expressed in millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.).

Note 1. Company Business

Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries ("FEMSA" or the Company), incorporated in 1936, is a public company established as a *sociedad anónima bursátil de capital variable* under the Mexican laws leading subsidiaries that are direct and indirect sub-holding companies in businesses in which the Company operates as beverage industry through Coca-Cola FEMSA; retail industry through FEMSA Comercio Proximity, Fuel and Health Divisions; beer industry through the Heineken investment and other businesses.

The following is a description of the Company's businesses, along with its interest ownership in each reportable segment:

	% Ownership		
Business	2019	2018	Activities
Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries ("Coca-Cola FEMSA")	**47.2% [1] (56.0% of the voting shares)**	47.2% [1] (63.0% of the voting shares)	Production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Guatemala, Nicaragua, Panama, Colombia, Venezuela, Brazil, Argentina and Uruguay (see Note 4). As of December 31, 2019, The Coca-Cola Company ("TCCC") indirectly owns 27.8% of Coca-Cola FEMSA's capital stock. In addition, shares representing 25% 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 – Proximity Division [3]	**100%**	100%	Small-box retail chain format operations in Mexico, Colombia, Peru, United States, Chile and Brazil, mainly under the trade name "OXXO".
FEMSA Comercio – 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.
FEMSA Comercio – Health Division	**100%** [2]	Various [2]	Drugstores operations in Chile, Colombia and Ecuador, mainly under the trademark "Cruz Verde", "Fybeca" and "SanaSana"; and in Mexico under various brands such as YZA, La Moderna and Farmacon.
Heineken investment	**14.8%**	14.8%	Heineken N.V. and Heineken Holding N.V. shares, which represents an aggregate of 14.8% economic interest in both entities (Heineken Group).
Other businesses	**100%**	100%	Companies engaged in the production and distribution of coolers, commercial refrigeration equipment, plastic cases, food processing, preservation and weighing equipment; logistic transportation and maintenance services to FEMSA's subsidiaries and to third parties.

[1] The Company controls Coca-Cola FEMSA's relevant activities. On January 31, 2019, Coca-Cola FEMSA, S.A.B. de C.V. Extraordinary General Shareholders' Meeting approved the following: (i) an eight-for-one stock split (the "Stock Split") of each series of shares of the Company; (ii) the issuance of Series B ordinary shares with full voting rights; and (iii) the creation of units, comprised of 3 Series B shares and 5 Series L shares, to be listed for trading on the Mexican Stock Exchange and in the form of American depositary shares on the New York Stock Exchange.

[2] The former shareholders of Farmacias YZA had a 18.6% stake in Cadena Comercial de Farmacias, S.A.P.I. de C.V., a subsidiary of FEMSA that holds all pharmacy business in Mexico (which we refer to as "CCF"). On November 13, 2019, FEMSA completed the acquisition of the remaining interest in Farmacias YZA. In 2018, FEMSA had 60% interest on Grupo Socofar ("Socofar"). As of December 13, 2019, FEMSA recognized the remaining 40% interest in Grupo Socofar ("Socofar") following the exercise of a put right by the minority partner to sell its non - controlling interest in Socofar.

[3] In 2018, the Company made a change in its reporting segment previously named FEMSA Comercio – Retail Division in which the activities not directly related with FEMSA Comercio – Retail Division where eliminated from the Proximity stores, including restaurant and discount retail units, before including in this operating segment. The reclassified operations from this segments is now included in "Others".

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 Eduardo Padilla Silva and the Chief Corporate Financial Officer Gerardo Estrada Attolini on February 21, 2020. These consolidated financial statements and notes were then approved by the Company's Board of Directors on February 27, 2020 and subsequent events have been considered through that date (see Note 30). These consolidated financial statements and their accompanying notes will be presented at the Company's shareholder meeting on March 20, 2020. The Company's shareholders have the power to approve or modify the Company's consolidated financial statements.

2.2 Basis of measurement and presentation

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

- Derivative financial instruments.
- Trust assets of post-employment and other long-term employee benefit plans.
- Investments in equity instruments and some financial liabilities.

The carrying values of assets and liabilities designated as hedged items in fair value hedges that would otherwise be carried at amortized cost are adjusted to record changes in the fair values attributable 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 restated in terms of the measuring unit at the end of the reporting period.

2.2.1 Presentation of consolidated income statement

The Company's consolidated income statement classifies its related costs and expenses by function accordingly within the industry practices in which 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, 2019 the consolidated income statement, the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended December 31, 2019 were converted into U.S. dollars at closing exchange rate of 18.8600 Mexican pesos per U.S. dollar as published by the Federal Reserve Bank of New York as of December 31, 2019. This arithmetic conversion should not be construed as representation that 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 27, 2020 (the issuance date of these consolidated financial statements) the exchange rate was Ps. 19.0878 per U.S. dollar, a devaluation of 1% since December 31, 2019.

2.3 Critical accounting judgments and estimates

For the application of the Company's accounting policies, as 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 assumptions are based on historical experience and other factors that are considered to be relevant. Actual 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 it affects only such period or in the current or subsequent periods of the revision if this affects both.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, the most significant effects of which are included on consolidated financial statements.

2.3.1 Key sources of estimation uncertainty

The following are the assumptions and other sources of estimation uncertainty as of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the subsequent financial period. 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 would be included 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 agreements 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 calculates an estimation of the value-in-use of the CGU to which such assets have been allocated. Impairment losses are recognized in current earnings for the excess of the carrying amount of the asset or CGU over its value-in-use 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 or CGU is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows expected to be generated from the use of the asset or CGU 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 3.20 and 13.

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

Property, plant and equipment, including returnable bottles which are expected to provide benefits over a period of more than one year, as well as intangible assets with definite 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 its experience in the industry for similar assets, see Notes 3.15, 3.18, 11 and 13.

2.3.1.3 Post-employment and other non-current 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 17.

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 recognizes deferred tax assets for unused tax losses and other credits and regularly reviews them for recoverability, based on its judgment regarding the probability of the timing and level of future taxable income, the expected timing of the reversals of existing taxable temporary differences and available tax planning strategies, see Note 25.

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 26. 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 measures 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 21.

2.3.1.7 Business combinations

Businesses combinations 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 compensation arrangements of the acquiree or share-based compensation arrangements of the Company entered into to replace share-based compensation arrangements of the acquiree are measured in accordance with IFRS 2, Share-based Payment at the acquisition date, see Note 3.27;
- 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; and
- Indemnifiable assets are recognized at the acquisition date on the same basis as the indemnified 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 weighted average cost of capital ("WACC") and estimation of inflation during the identification of intangible assets with indefinite live, mainly, goodwill, distribution and trademark rights.

2.3.1.8 Equity accounted investees

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's board of director committees, such as the executive committee or the finance committee.

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 assesses 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 3.14; 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 4, until January 2017, Coca-Cola FEMSA accounted for its 51% investment in Coca-Cola FEMSA Philippines, Inc. ("CCFPI") as a joint venture, this was 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 were not probable to be exercised in the foreseeable future and the fact that the call option remains "out of the money" as of December 31, 2017. In January 2017, the arrangement between Coca-Cola FEMSA and TCCC for joint control of CCFPI expired; therefore, Coca-Cola FEMSA started to consolidate the operations of CCFPI effective February 2017. On August 16, 2018, Coca-Cola FEMSA announced the exercise of the put option to sell its 51% stake in CCFPI back to TCCC. Therefore, its operations for the years ended December 31, 2018 and 2017 were classified as discontinued operations in the consolidated income statements.

2.3.1.9 Venezuela exchange rates and deconsolidation

As is explained in Note 3.3 below, effective December 31, 2017, the Company deconsolidated its Coca-Cola FEMSA subsidiary's operations in Venezuela due to the political and economic environment in that country and began accounting for its investments under the fair value method. Consequently, beginning January 1, 2018, all changes in the fair value of the investment, including foreign currency translation differences are recognized for Venezuela's operations in *"Other comprehensive income, net of tax."*

2.3.1.10 Leases

Information on assumptions and estimates that have a significant risk of resulting in an adjustment to the carrying value of right-of-use assets and lease liabilities, and related statement of income accounts, include the following:

- If the Company is reasonably certain to exercise an option to extend a lease agreement or not to exercise an option to terminate a lease agreement before its termination date, considering all the facts and circumstances that create an economic incentive for the Company to exercise, or not, such options, taking into account whether the lease option is enforceable, when the Company has the unilateral right to apply the option in question.
- Determination of the non-cancellable period for evergreen contracts and lifelong leases, considering whether the Company is reasonably certain to terminate the lease and/or estimating a reasonable period for the use of the asset, based on significant leasehold improvements made on the leased properties that provide reasonable certainty to the Company about the remaining period to obtain the benefits of such improvements on leased properties.

2.4 Application of recently issued accounting standards

The Company has applied the following amendments to IFRS during 2019:

2.4.1 IFRS 16 Leases

IFRS 16 supersedes International Accounting Standard (IAS) 17, Leases, International Financial Reporting Interpretation Committee (IFRIC) 4, *Determining whether an Arrangement contains a Lease*, Standard Interpretation Committee (SIC) 15, Operating Leases-Incentives and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model, recognizing a right-of-use asset reflecting its right to use the underlying asset and a related lease liability for its obligation to make lease payments during the lease term. The Company has modified its accounting policy for lease contracts as a result of the standard adoption, acting only as a lessee, as detailed in Note 3.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Company applied the modified retrospective approach, under which, the cumulative effect of initial application is recognized in retained earnings as from January 1, 2019. The main changes on leases accounting policy is disclosed below.

Definition of a lease

Previously, the Company had determined at each contract inception whether an arrangement is or contains a lease under "IAS 17 – Leases" and "IFRIC 4 – Determining whether an arrangement contains a lease". Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3.

The Company elected to apply the transition practical expedient known as "Grandfather" which allows at the date of initial application to consider as a lease only those contracts previously identified as such in accordance with IAS 17 and IFRIC 4. Therefore, the definition of a lease under IFRS 16 applies only to those contracts entered into or modified on or after January 1, 2019.

Accounting as a lessee

As a lessee, the Company previously classified leases as either operating or finance leases based on its assessment of whether substantially all the rights and risk incidental to ownership of an asset are transferred from the lessor to the lessee. Under IFRS 16, the Company recognizes a right-of-use asset and a lease liability for all lease arrangements, excluding those that are considered as exceptions by the standard.

At transition date, the Company recognized a lease liability measured at the present value of the remaining lease payments during the non-cancellable period, discounted at the incremental borrowing rate of the Company as of January 1, 2019. Right-of-use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The following practical expedients permitted by IFRS 16 were applied to lease contracts previously accounted for as operating leases under IAS 17 at the transition date only:

- A single discount rate to a portfolio of leases with similar characteristics.
- Not to recognize right-of-use assets and liabilities for leases with less than twelve months of lease term and leases of low-value items.
- Exclude initial direct costs from measuring the right-of-use asset.
- Use hindsight information when determining the lease term if the contract contains options to extend or terminate the lease.

As of January 1, 2019, the main effects in the relevant line items of FEMSA's statement of financial position were as follows:

Operating lease commitments as of December 31, 2018	**Ps.**	**82,216**
Discounted operating lease commitments		**50,827**
Less: Commitments relating to short-term leases and low-value assets		**699**
Add: Commitments relating to leases previously classified as finance leases		**92**
Lease liabilities and right-of-use asset as of January 1, 2019	**Ps.**	**50,220**

As of the date of the adoption, the weighted average incremental borrowing rate was 9.84%.

2.4.2 IFRIC 23 Uncertainty over income tax treatments

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

a) Whether an entity considers uncertain tax treatments separately,

b) The assumptions an entity makes about the examination of tax treatments by taxation authorities,

c) How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and

d) How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after January 1, 2019 and has been adopted in preparing these Consolidated Financial Statements.

The Company applied the modified retrospective approach and has performed a qualitative and quantitative evaluation of the impacts in the consolidated financial statements derived from IFRIC 23 adoption. Such evaluation includes the following activities described below:

i) Review of the Company's policies through which tax treatments are revised and accounted, this includes evidence from business units delivered to external advisors.

ii) Analysis of the tax memorandums prepared by the external tax advisor which support the Company's tax treatment over an uncertain tax position about a) how tax earnings (losses) are calculated, b) tax basis or losses are applied, c) tax credits are applied, and d) how tax rates in different jurisdictions are considered.

iii) Documentation of the tax correspondence received in the Company's and subsidiaries business units in order to analyze any recent resolution adopted from the tax authority regarding tax positions.

iv) Analysis of the tax position report of the Company on a monthly basis.

The Company concluded that there were no significant impacts on the consolidated financial statements from the adoption of the IFRIC 23.

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 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. 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, 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.

Sometimes obtaining control of an acquiree in which equity interest is held immediately before the acquisition date is considered as a business combination achieved in stages also referred to as a step acquisition. The Company remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in profit or loss. Also, the changes in the value of equity interest in the acquiree recognized in other comprehensive income shall be recognized on the same basis as required if the Company had disposed directly of the previously held equity interest, see Note 3.14.

The Company sometimes obtains control of an acquiree without transferring consideration. The acquisition method of accounting for a business combination, applies to those combinations as follows:

(a) The acquiree repurchases a sufficient number of its own shares for the Company to obtain control.

(b) Minority veto rights lapse that previously kept the Company from controlling an acquiree in which it held the majority voting rights.

(c) The Company and the acquiree agree to combine their businesses by contract alone in which it transfers no consideration in exchange for control and no equity interest is held in the acquiree, either on the acquisition date or previously.

3.3 Foreign currencies, consolidation of foreign subsidiaries and accounting of equity accounted investees

In preparing the financial statements of each individual subsidiary and accounting for equity accounted investees, transactions in currencies other than the individual entity's functional currency (foreign currencies) are recognized at the exchange rates 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 retranslated.

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 accumulated 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 accumulated other comprehensive income (loss) item, which is recorded in equity; and
- 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 20) 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 entities operating in 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 entities operating in 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.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of equity accounted investees 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. In September 2017, the Company sold shares equal to 5.2% of economic interest in Heineken Group, consequently it reclassified the proportionate share of the accumulated exchange differences, recognized previously in other comprehensive income, for a total profit of Ps. 6,632 to the consolidated income statement.

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.

		Exchange Rates of Local Currencies Translated to Mexican Pesos [1]				
		Average Exchange Rate for			Exchange Rate as of	
Country or Zone	Functional / Recording Currency	2019	2018	2017	December 31, 2019	December 31, 2018
Guatemala	Quetzal	**2.50**	2.56	2.57	**2.45**	2.54
Costa Rica	Colon	**0.03**	0.03	0.03	**0.03**	0.03
Panama	U.S. dollar	**19.26**	19.24	18.93	**18.85**	19.68
Colombia	Colombian peso	**0.01**	0.01	0.01	**0.01**	0.01
Nicaragua	Cordoba	**0.58**	0.62	0.63	**0.56**	0.61
Argentina	Argentine peso	**0.41**	0.73	1.15	**0.31**	0.52
Venezuela a)	Bolivar	**–**	–	a)	**–**	–
Brazil	Reais	**4.89**	5.29	5.94	**4.68**	5.08
Chile	Chilean peso	**0.03**	0.03	0.03	**0.03**	0.03
Euro Zone	Euro (€)	**21.56**	22.71	21.32	**21.12**	22.54
Peru	Nuevo Sol	**5.77**	5.85	5.78	**5.68**	5.83
Ecuador	U.S. dollar	**19.26**	19.24	18.93	**18.85**	19.68
Philippines	Philippine peso	**–**	0.37	0.38	**–**	0.37
Uruguay	Uruguayan peso	**0.55**	0.63	0.66	**0.51**	0.61

[1] Exchange rates published by the Central Bank of each country where the Company operates.

a) Venezuela

Effective December 31, 2017, the Company determined that the deteriorating conditions in Venezuela had led Coca-Cola FEMSA to no longer meet the accounting criteria to consolidate its Venezuelan subsidiary. Such deteriorating conditions had significantly impacted Coca-Cola FEMSA's ability to manage its capital structure, its capacity to purchase raw materials and limitations of portfolio dynamics. In addition, certain government controls over pricing, restriction over labor practices, acquisition of U.S. dollars and imports, has affected the normal course of business. Therefore, and due to the fact that its Venezuelan subsidiary will continue doing operations in Venezuela, as of December 31, 2017, Coca-Cola FEMSA changed the method of accounting for its investment in Venezuela from consolidation to fair value measured using a Level 3 concept.

As a result of the deconsolidation, Coca-Cola FEMSA also recorded loss within other expenses for an amount of Ps. 28,176 for the year ended December 31, 2017. Such effect includes the reclassification of Ps. 26,123 previously recorded as exchange differences on translation of foreign subsidiaries and equity accounted investees in equity, impairment equal to Ps. 745 and Ps. 1,098 mainly from distribution rights and property, plant and equipment, respectively, and Ps. 210 for the remeasurement at fair-value of Venezuelan investment.

Prior to deconsolidation, during 2017, Coca-Cola FEMSA's Venezuelan operations contributed Ps. 4,005 to net sales, and losses of Ps. 2,223 to net income. Its total assets were Ps. 4,138 and the total liabilities were Ps. 2,889.

Beginning on January 1, 2018, Coca-Cola FEMSA recognizes its investment in Venezuela under the fair value through OCI method following the IFRS 9 *Financial Instruments*.

Exchange rate

Until December 31, 2017, Coca-Cola FEMSA's recognition of its Venezuelan operations involved 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 is bolivar. Any non-bolivar denominated monetary assets or liabilities are translated into bolivars at each balance sheet date using the exchange rate at which Coca-Cola FEMSA expects them to be settled, with the corresponding effect of such translation being recorded in the income statement. See 3.4 below.

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.

In December 2017, Coca-Cola FEMSA translated the Venezuela entity figures at an exchange rate of 22,793 bolivars per U.S. dollar, as such exchange rate better represents the economic conditions in Venezuela. Coca-Cola FEMSA considers that this exchange rate provides more useful and relevant information with respect to Venezuela's financial position, financial performance and cash flows. On January 30, 2018, a new auction of the DICOM celebrated by Venezuela's government resulted on an estimated exchange rate of 25,000 bolivar per U.S. dollar.

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 subsidiaries 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, net, intangible assets, net 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 the subsidiary 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 disclosed in Note 3.3, Coca-Cola FEMSA deconsolidated its Venezuelan operations. Consequently, the Venezuelan investment is no longer consolidated by Coca-Cola FEMSA, however, Coca-Cola FEMSA's Venezuelan subsidiary will continue operating.

As of December 31, 2019, 2018, and 2017, the operations of the Company are classified as follows:

Country	Cumulative Inflation 2017- 2019	Type of Economy	Cumulative Inflation 2016- 2018	Type of Economy	Cumulative Inflation 2015- 2017	Type of Economy
Mexico	**13.2%**	Non-hyperinflationary	15.7%	Non-hyperinflationary	12.7%	Non-hyperinflationary
Guatemala	**11.8%**	Non-hyperinflationary	12.2%	Non-hyperinflationary	13.5%	Non-hyperinflationary
Costa Rica	**5.8%**	Non-hyperinflationary	5.7%	Non-hyperinflationary	2.5%	Non-hyperinflationary
Panama	**0.5%**	Non-hyperinflationary	2.1%	Non-hyperinflationary	2.3%	Non-hyperinflationary
Colombia	**11.0%**	Non-hyperinflationary	13.4%	Non-hyperinflationary	17.5%	Non-hyperinflationary
Nicaragua	**15.6%**	Non-hyperinflationary	13.1%	Non-hyperinflationary	12.3%	Non-hyperinflationary
Argentina (a)	**179.4%**	Hyperinflationary	158.4%	Hyperinflationary	101.5%	Hyperinflationary
Venezuela	**–**	–	–	–	30,690.0%	Hyperinflationary
Brazil	**11.1%**	Non-hyperinflationary	25.0%	Non-hyperinflationary	21.1%	Non-hyperinflationary
Philippines	**–**	–	11.9%	Non-hyperinflationary	7.5%	Non-hyperinflationary
Euro Zone	**3.6%**	Non-hyperinflationary	2.7%	Non-hyperinflationary	2.7%	Non-hyperinflationary
Chile	**8.3%**	Non-hyperinflationary	9.7%	Non-hyperinflationary	9.7%	Non-hyperinflationary
Peru	**5.2%**	Non-hyperinflationary	9.3%	Non-hyperinflationary	9.3%	Non-hyperinflationary
Ecuador	**0.3%**	Non-hyperinflationary	30.3%	Non-hyperinflationary	30.3%	Non-hyperinflationary
Uruguay	**22.0%**	Non-hyperinflationary	25.3%	Non-hyperinflationary	–	–

a) Argentina

Beginning on July 1, 2018, Argentina was classified as hyperinflationary economy based on several consumer price indexes of the country. Therefore, the financial statements of the subsidiary were remeasured in its functional currency (Argentine peso) but they were not restated in its presentation currency (Mexican pesos) as it is not stated as a hyperinflationary economy. In addition, the Company's financial statements for prior periods were not restated for comparative purposes.

For being considered hyperinflationary, the financial information for our Argentine subsidiary has been adjusted to recognize the inflationary effects since January 1, 2018 through:

- Using inflation factors to restate non-monetary assets, such as inventories, property, plant and equipment, net, intangible assets, net, including related costs and expenses when such assets are consumed or depreciated.
- Recognize the monetary position gain or loss in consolidated net income.

The Federacion Argentina de Consejos Profesionales de Ciencias Económicas ("FACPCE") approved on September 29, 2018 and published on October 5, 2018, a resolution which defines, among other things, that the index price to determine the restatement coefficient (Based on a series that applies the NCPI from January with the IPIM until this date, and computing November and December 2015 using the CPI – of Ciudad del Gran Buenos Aires ("CGBA") variation).

3.5 Cash and cash equivalents and restricted cash

Cash is comprised of deposits in bank accounts which generate an interest on the available balance. Cash equivalents are mainly represented by short-term bank deposits and fixed-income investments (overnight), both with maturities of three months or less and their carrying values approximate fair value.

The Company also maintains restricted cash which is insured as collateral to meet certain contractual obligations. Restricted cash is presented within other current financial assets given that, by their nature, the restrictions are short-term.

3.6 Investments

The investments include debt securities and bank deposits with a maturity of more than three months as of the acquisition date.

Management determines the appropriate classification of investments at the time of purchase and evaluates that classification at the date of each statement of financial position, see Notes 6 and 14.

3.7 Financial assets

Financial assets are classified within the following business models depending on management's objective: (i) "held to maturity to recover cash flows", (ii) "held to maturity and to sell financial assets" and (iii) "others or held for trading", including derivatives assigned in hedging instruments with efficient 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.

The Company performs a portfolio – level assessment of the business model in which a financial asset is managed to accomplish with Company's risk management purposes. The information that is considered within the evaluation includes:

- The policies and objectives of the Company in relation to the portfolio and the practical implementation of policies;
- Performance and evaluation of the Company's portfolio including accounts receivable;
- Risks that affect the performance of the business model and how those risks are managed;
- Any compensation related to the performance of the portfolio; and
- Frequency, volume and timing of sales of financial assets in previous periods together with the reasons for said sales and expectations regarding future sales activities.

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

For the initial recognition of a financial asset, the Company measures it at fair value plus the transaction costs that are directly attributable to the purchase thereof, in the event that said asset is not measured at fair value through profit or loss. Accounts receivable that do not have a significant financing component are measured and recognized at the transaction price when they are generated. The rest of the financial assets are recognized only when the Company is part of the contractual provisions of the instrument.

The fair value of an asset is measured using assumptions that would be used by market participants when valuing the asset, assuming that the transaction is orderly and takes place in the principal or the most advantageous market for the asset.

During the initial recognition, the financial asset is also classified as measured at: amortized cost, fair value with changes in other comprehensive income – debt or equity investments – and fair value through profit or loss. The classification depends on the objective by which the financial asset is acquired.

Financial assets are not reclassified after their initial recognition unless the Company changes the business model to manage the financial assets; in which case, all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

3.7.1 Financial assets at amortized cost

A financial asset is measured at amortized cost if it meets the following two conditions and is not designated as fair value through profit and loss ("FVTPL"):

- Its managed within a business model whose objective is to maintain financial assets to recover the contractual cash flows; and
- The contractual terms are only payments at specified dates of the principal and interest on the amount of the outstanding principal.

The amortized cost of a financial asset is the amount of the initial recognition less the principal payments, plus or less the accumulated amortization using the effective interest rate method of any difference between the initial amount and the amount as of the maturity and, for financial assets, adjusted for loss of impairment. The financial product, exchange fluctuation and impairment are recognized in results. Any profit or loss is also recognized in the same way in results.

3.7.2 Effective interest rate method ("ERR")

The effective interest rate method consists in calculating the amortized cost of loans and accounts receivables and other financial assets (measured at amortized cost) and 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.

3.7.3 Financial assets at fair value with changes in other comprehensive income ("FVOCI")

A financial asset is measured in FVOCI if it meets the following two conditions and is not designated as FVTPL:

- Its managed within a business model whose objective is achieved through the collection of contractual cash flows and the sale of financial assets; and
- The contractual terms are only payments of the principal and interest on the amount of the outstanding principal.

These assets are subsequently measured at fair value. The financial product calculated using the internal rate of return ("IRR"), the exchange fluctuation and the impairment are recognized in profit and loss. Other gains and losses, related to changes in fair value, are recognized in OCI. In case of disposals, the accumulated gains and losses in OCI are reclassified to profit and loss.

In the initial recognition of an equity instrument that is not held for trading, under the "other" business model, the Company may irrevocably choose to present changes in the fair value of the investment in OCI. This choice has to be made for each investment. Equity instruments are subsequently measured at fair value. Dividends are recognized as profit in results unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses, related to changes in fair value, are recognized in OCI and are considered items that will not be reclassified to consolidated net income in subsequent periods.

3.7.4 Financial assets at fair value through profit or loss

Financial assets designated as fair value through profit and loss include financial assets held for trading and financial assets designated at initial recognition as fair value through profit and loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the short term. Derivatives, including embedded derivatives are also classified as held for trading unless they are allocated as effective hedging instruments. Financial assets at fair value through profit or loss are recorded in the balance sheet with changes in fair value presented as financial costs (net negative changes in fair value) or financial products (net positive changes in fair value) in profit or loss, including any dividend income.

3.7.5 Evaluation that contractual cash flows are solely principal and interest payments ("SPPI")

In order to classify a financial asset within one of the three different categories, the Company determines whether the contractual cash flows of the asset are only principal and interest payments. The Company considers the contractual terms of the financial instrument and whether the financial asset contains any contractual term that could change the timing or amount of the contractual cash flows in such a way that it would not meet the SPPI criteria. In making this evaluation, the Company considers the following:

- Contingent events that would change the amount or timing of cash flows;
- Terms that can adjust the contractual coupon rate, including variable interest rate characteristics;
- Payment and extension features; and
- Characteristics that limit the Company's right to obtain cash flows from certain assets.

A prepaid feature is consistent with the characteristics of only principal and interest payments if the prepayment amount substantially represents the amounts of the principal and interest pending payment, which could include reasonable compensation for early termination of the contract. Additionally, a financial asset acquired or originated with a premium or discount to its contractual amount and in the initial recognition the fair value of the prepaid characteristic is insignificant, the asset will pass the test of the contractual characteristics of cash flow if the amount of prepaid represents substantially the contractual amount and accrued interest (but not paid); which may include additional compensation for the early termination of the contract.

3.7.6 Impairment of financial assets

The Company recognizes impairment due to expected credit loss ("ECL") in:

- Financial assets measured at amortized cost;
- Debt investments measured at FVOCI; and
- Other contractual assets.

Impairment losses on accounts receivable, contractual assets and leasing receivables are measured at the amount that equals the lifetime expected loss of credit, whether or not it has a significant component. The Company applies the criteria to all accounts receivable, contractual assets and leasing credits, together or separately.

The Company measures impairment losses at an amount that equals to lifetime ECL, except for the following:

- Debt instruments classified as low credit risk; and
- Other debt instruments in which the credit risk (irrecoverability risk over the financial instrument expected life) has not increased significantly since the initial recognition.

In determining whether the credit risk of a financial asset has increased significantly since initial recognition and estimating the ECL, the Company considers reasonable and sustainable information that is relevant and available without undue cost or effort. It includes qualitative and quantitative analysis based on Company's experience and credit assessment.

The impairment loss is a weighted estimate of the probability of expected loss. The amount of impairment loss is measured as the present value of any lack of liquidity (the difference between the contractual cash flows that correspond to the Company and the cash flows that management expects to receive). The expected credit loss is discounted at the original effective interest rate of the financial asset.

The Company annually evaluates if there was evidence of an impairment. Some observable data that financial assets were impaired includes:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as default or past due event;
- Granting concessions due to the borrower's financial difficulties in which Company would not consider in other circumstances.
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for a financial instrument because of financial difficulties; or
- Information indicating that there was a measurable decrease in the expected cash flows of a group of financial assets.

For a capital instrument, evidence of impairment includes a significant decrease in its fair value even lower than its carrying value.

The impairment loss on financial assets measured at amortized cost is reduced from the book value and for financial assets measured at FVOCI, the impairment loss is recognized as profit or loss within OCI.

3.7.7 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.

3.7.8 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.

3.8 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.

3.9 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 FVTPL or FVOCI, 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 period in current earnings otherwise as a component of cumulative other comprehensive income based on the item being hedged and the effectiveness of the hedge.

3.9.1 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.

3.9.2 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.

3.9.2.1 Fair value hedges

For hedged items carried at fair value, 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, change in the fair value of the effective portion of the hedge is recognized first as an adjustment to the carrying value of the hedged item and then 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 profit and loss.

3.9.2.2 Hedge of net investment in a foreign business

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

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, 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 disposed, the corresponding accumulated foreign currency translation effect is recognized as part of the gain or loss on disposal within the consolidated income statement.

3.10 Fair value measurement

The Company measures financial instruments, such as derivatives, and certain 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 14 and 19.

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 21 and unquoted liabilities such as debt described in Note 19.

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.

3.11 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 and are based on the weighted average cost formula. 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 – Proximity, 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 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 maintenance and 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.

3.12 Loans and receivables

The instruments under this category includes loans, trade receivables, and other accounts receivables measured at amortized cost which represents future cash flows discounted at the effective interest rate of the transaction date.

In addition, an expected credit loss model is applied to this category, which is reported net of this impairment allowance in the financial statements. The allowance amount is not significant because the trade accounts receivable are usually recovered in the short term.

Interest income is recognized by applying the effective interest rate except for current receivables, considering that the recognition of interest is immaterial. For the years ended December 31, 2019, 2018 and 2017 there was no interest income on loans and receivables.

3.13 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 income statement 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, 2019, 2018 and 2017, such amortization aggregated to Ps. 273, Ps. 277 and Ps. 759, respectively.

3.14 Equity accounted investees

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 it 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 value 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.

If an investment interest is reduced, but continues to be classified as an associate, the Company reclassifies to profits or losses the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to the reduction in ownership interest if the gain or loss would be required to be reclassified to consolidated net income on the disposal of the related investment.

The Company reclassifies in each case proportionate to the interest disposed of recognized in other comprehensive income: i) foreign exchange differences, ii) accumulated hedging gains and losses, iii) any other amount previously recognized that would had been recognized in net income if the associate had directly disposed of the asset to which it relates.

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value.

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 of December 31, 2019 and 2018 the Company does not have an interest in joint operations.

If an investment interest is reduced, but continues to be classified as joint arrangement, the Company reclassifies to profits or losses the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to the reduction in ownership interest if the gain or loss would be required to be reclassified to consolidated net income on the partial disposal of the related investment.

The Company reclassifies the proportion to the interest disposed of in joint ventures investment interest reduction. During the years ended December 31, 2019, 2018 and 2017 the Company does not have a significant disposal or partial disposal in joint arrangements.

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

3.15 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 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 assets are as follows:

	Years
Buildings	25-50
Machinery and equipment	10-20
Distribution equipment	7-15
Refrigeration equipment	5-7
Returnable bottles	1.5-3
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 income statement.

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

- Non-returnable: Are recorded in consolidated income statement 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.

3.16 Leases

Under IFRS 16, the Company assesses at its inception whether a contract is, or contains, a lease when the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. The Company assesses whether a contract is a lease arrangement, when:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the lessor has substantive substitution rights, then the asset is not identified;
- The Company has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. When the use of the asset is predetermined, the Company has the right to direct the use of the asset if either: i) it has the right to operate the asset; or ii) the design of the asset predetermines how and for what purpose it will be used.

The Company enters into leases mainly for land and buildings for its retail stores and other buildings for its offices. In general, lease agreements for retail stores last 15 years, and office space agreements last between three and five years.

As a lessee

Initial recognition

At the lease commencement date, the Company recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date. The right-of-use asset considers any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments to be made over the lease term. The future lease payments are discounted using the Company's incremental borrowing rate, which is considered as the rate that the Company would negotiate when financing for a similar period, and with a similar guarantee, to obtain an asset of a similar value to the lease asset. For the Company, the discount rate used to measure the right of use asset and its lease liability is the rate related to the cost of financing for the Company from the consolidated perspective ("*Ultimate Parent Company*").

Lease payments included in the measurement of the lease liability, comprise the following:

- Fixed payments, including in-substance fixed payments, less any incentives receivable;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; and
- The exercise price under a purchase option that the Company is reasonably certain to exercise, an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.
- Amounts expected to be payable to the lessor under residual value guarantees.

The Company does not recognize a right-of-use asset and a lease liability for short-term leases that have a lease term of 12 months or less and leases of low-value assets, mainly technological equipment used by the employees, such as: computers, handheld devices and printers. The Company recognizes the lease payments associated with these leases as an expense in the consolidated statement of income as they are incurred.

Subsequent measurement

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the shorter of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically adjusted for impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is subsequently measured at amortized cost using the effective interest rate method. The Company remeasures the lease liability when there is a modification in the lease term or amounts of expected payments under a residual value guarantee and when it is arising from a change in an index or rate, without modifying the incremental borrowing rate (unless it results from a change in a floating rate). The lease liability is remeasured using a new incremental borrowing rate at the date of the modification when:

- An extension or termination option is exercised modifying the non-cancellable period of the contract;
- The Company changes its assessment of whether it will exercise a purchase option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying value amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

A modification to the lease agreement is accounted for as a separate lease if both of the following conditions are met: i) the modification increases the scope of the lease by adding the right-to-use one or more underlying assets; and ii) the consideration for the lease increases by an amount proportional to the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the contract.

In the consolidated statement of income and consolidated statement of comprehensive income, the interest expense from the lease liability is recognized as a component of finance costs, unless it is directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's accounting policy on borrowing costs. Depreciation of the right-of-use asset is recognized in the consolidated statement of income.

Leasehold improvements on lease agreements are recognized as a part of property, plant and equipment in the consolidated financial statements and are amortized using the straight-line method over the shorter of either the useful life of the assets or the related lease term contract.

The Company has recognized a significant amount of right-of-use assets and a corresponding lease liability, see Note 12.

As a lessor
If the Company acts as a lessor, it determines at lease inception if each arrangement is either a finance lease or an operating lease.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the underlying asset. If not, all other leases are classified as operating leases. The Company considers certain relevant indicators, amongst others, to determine if all the risks and rewards are substantially transferred, such as:

- Whether the lease is for the major part of the economic life of the asset, or
- Whether the minimum future lease payments compare with the fair value of the underlying asset.

The Company recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of the consolidated statement of income, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. The Company also recognizes costs, including depreciation of the leased assets, incurred in earning the lease revenue.

The Company initially recognizes an amount equal to the net investment of the lease, that is, the present value of future lease payments plus any guarantee of residual value that is granted; and it includes the distinction between the current portion of the receivables with maturity less than or equal to a term of 12 months and the non-current receivables, that is, with maturity greater than 12 months; including:

(i) fixed payments, including those that are in substance fixed payments, which may include a variability, but that are unavoidable in essence, less any lease incentive to be received;

(ii) payments for variable rent that depend on an index or a rate at the start date of the lease contract;

(iii) amounts payable by the lessee under residual value guarantees (if applicable);

(iv) the price related to a purchase option if the lessee is reasonably certain to exercise the option (if applicable); and

(v) payments for penalties derived from the termination of the lease, if the term of the lease reflects that the lessee will exercise an option to terminate the lease.

All intra-group right-of-use assets and lease liabilities, interest expenses, depreciations and cash flows relating to transactions between subsidiaries of the Company are eliminated on consolidation.

3.17 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 income statement in the period in which they are incurred.

3.18 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. Expenditures 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 may exceed 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. Additionally, the Company's intangible assets with an indefinite life also 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, 2019, and in regards to a joint restructure with TCCC for the bottling agreements, Coca-Cola FEMSA had four bottler agreements in Mexico: (i) the agreements for the Valley of Mexico territory, which are up for renewal in June 2023, (ii) the agreement for the Southeast territory, which is up for renewal in June 2023, (iii) one agreement for the Bajio territory, which is up for renewal in May 2025 and (iv) the agreement for the Golfo territory, which is up for renewal in May 2025.

As of December 31, 2019, and in regards to a joint restructure with TCCC for the bottling agreements, Coca-Cola FEMSA had two bottler agreements in Brazil which are up for renewal in October 2027; and three bottler agreements in Guatemala, which are up for renewal in March 2025 and April 2028 (two contracts).

In addition, Coca-Cola FEMSA had one bottler agreement in each country which are up for renewal as follows: Argentina, which is up for renewal in September 2024; Colombia which is up for renewal in June 2024; Panama which is up for renewal in November 2024; Costa Rica which is up for renewal in September 2027; Nicaragua which is up for renewal in May 2026; and Uruguay which is up for renewal in June 2028.

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.

3.19 Non-current assets held for sale and discontinued operations

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. In addition, the sale is considered highly probable if the following conditions are met:

- The appropriate level of management must be committed to a plan to sell the asset (or disposal group);
- An active programme to locate a buyer and complete the plan must have been initiated;
- The active (disposal group) must be actively marketed for sale at a price is reasonable in relation to its current fair value; and
- The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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.

The discontinued operations are operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity, that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the continuing operations and are also presented as a single entity as earnings (loss) after income taxes of discontinued operations in the income statement. For further information, please see Note 4. In addition, the information included elsewhere in this report, includes only continuing operations otherwise it would be indicated the opposite.

3.20 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 with finite lives 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 CGU, or otherwise they are allocated to the smallest CGU for which a reasonable and consistent allocation basis can be identified.

For the purpose of impairment testing 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 the conditions leading to an impairment loss no longer exist, it is subsequently reversed, that is, 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, 2019, 2018 and 2017, the Company recognized impairment losses of Ps. 1,018, Ps. 432 and 2,063, respectively (see Note 20).

3.21 Financial liabilities and equity instruments

3.21.1 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.

3.21.2 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.

3.21.3 Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at amortized cost, except for derivatives instruments designated as hedging instruments in an effective hedge, financial liabilities arising from transfer of a financial asset that does not qualify for derecognition, financial guarantee contracts and contingent consideration obligation in a business combination, as appropriate, which are recognized at FVTPL. 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 3.9.

Subsequent measurement

The subsequent measurement of the Company's financial liabilities depends on their classification as described below.

3.21.4 Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR 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 19.

3.21.5 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.

3.22 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 26.

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.

3.23 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.

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 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 decrease 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.

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 for 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.

3.24 Revenue recognition

The Company recognizes revenue when the control of performance obligations included in the contract are transferred to the customer. Control refers to the ability that customer has to direct the use and also to obtain substantially all the benefits of the goods or services exchanged.

Management defined the following as indicators to analyze the timing and circumstances as well as the amount by which the revenues would be recognized:

- Identify the contract(s) with a customer (written, oral or any other according with business practices);
- Evaluating the goods and services committed in the contract and identify how each performance obligation in the contract will be transferred to the customer;
- Considering the contractual terms jointly with business practices to determinate the transaction price. The transaction price is the amount of the consideration the Company expects to receive in exchange for transferring the committed goods and services to the customer, excluding tax on sales. The expected consideration in a contract should include fixed or variable amounts, or both;
- Allocate the transaction price to each performance obligations in the contract (to each good and service that is different) for an amount that represents the consideration to which the entity expects to receive in exchange to the goods and services arranged with the customer; and
- Recognise revenue when (or as) the entity satisfies a performance obligation in exchange for committed goods and services.

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 and discounts.

The benefits granted from supplier to the Company as discounts and incentives are recognized as benefit in the cost of goods sold, because they do not represent an additional revenue by mean of which a separate performance obligation is to be satisfied, with a separate reasonable fair value to be identified by the Company.

The Company generates revenues for the following activities:

Sale of goods

It includes the sales of goods by all the subsidiaries of the Company, mainly the sale of beverages of the leading brand of Coca-Cola and the sale or consumption of goods in the small-format stores of the FEMSA Comercio – Proximity, FEMSA Comercio – Health and FEMSA Comercio – Fuel Divisions; in which the revenue is recognized in the point of time those products were sold to the customers. See Note 28.

Rendering of services

It includes the revenues of distribution services, maintenance services and packing of raw materials that the Company recognizes as revenues as the related performance obligation is satisfied. The Company recognizes revenues for rendering of services during the time period in which the performance obligation is satisfied according with the following conditions:

- The customer receives and consume simultaneously the benefits, as the Company satisfies the obligation;
- The customer controls related assets, even if the Company improve them;
- The revenues can be measured reliably; and
- Is probable that economic benefits will flow to the Company.

Financial products

It includes interest generated on related financial assets used by third parties which includes accounts receivables recorded when the following conditions are accomplished:

- The revenues can be measured reliably; and
- It is probable that economic benefits will flow to the Company.

In addition, the Company evaluates the revenue recognition based on the classification previously defined for the financial asset that generates the related financial product, according with the business models establishes for the financial instruments classified by the Company. See Note 3.9.

The main financial instruments of the Company that could generate a financial product are trade accounts receivables classified as financial assets held to maturity to cover cash flows which are measured at amortized cost through the effective interest rate method, applying EIR, which is the rate that exactly discounts the collections of cash flows to the expected life of the related financial asset.

Rewards programs
The Company recognizes a provision for the obligation to award additional benefits to its customers. Management considers for those effects, the expectation that some percentage of its customers would not redeem their rewards points in future based on previous experience.

Variable allowances granted to customers
The Company adjust the transaction price based on its estimated amount of rebates and promotional allowances, among others. Those estimations include commercial commitments with customers and previous expected performance. The variable allowances are assigned to each related performance obligation.

Contracts costs
The incremental costs to obtain a contract with a customer are recognized as an asset (capitalized) if the Company expect to recover those costs. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The Company recognizes those costs as an expense in the income statement when the income associated with those costs is incurred for a period equal to or less than a year. For any other cost that is related with the fulfillment of a contract with a customer, but it is not part of the own revenue recognition, then this will be considered as an asset including related costs, but only if those costs are related with a contract or with a contract that the Company expects to identify specifically and also, those costs generates or improves the resources of the Company that will be applied to satisfy, or continue satisfying; the performance obligations in the future and that is expected to recover those costs. The asset recognized is amortized progressively in the same manner as the exchange of the goods and services are transferred to the customer, accordingly, the asset is recognized in the income statement through its amortization in the same period of time in which the revenue is recognized.

3.25 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, 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, 2019, 2018 and 2017, these distribution costs amounted to Ps. 25,068, Ps. 23,421 and Ps. 25,041, respectively;
- Sales: labor costs and sales commissions paid to sales personnel; and
- Marketing: promotional expenses and advertising costs.

PTU is paid by the Company's Mexican subsidiaries to 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.

3.26 Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are charged to consolidated income statements 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.

3.26.1 Current income taxes

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

3.26.2 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, including tax loss carryforwards and certain tax credits, to the extent that it is probable that future taxable profits, reversal of existing taxable temporary differences and future tax planning strategies that will create taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from 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. In the case of Brazil, where certain goodwill amounts are at times deductible for tax purposes, the Company recognizes in connection with the acquisition accounting a deferred tax asset for the tax effect of the excess of the tax basis over the related carrying value.

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 is 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 2019, 2018 and 2017, and it is expected to remain at 30% for the following years.

3.27 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 the 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 income statements such that the cumulative expense reflects the revised estimate.

3.28 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.

3.29 Issuance of subsidiary common shares

The Company recognizes the issuance of a subsidiary's common shares 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 in additional paid-in capital.

Note 4. Mergers, Acquisitions and Disposals

4.1 Mergers and acquisitions

The Company has consummated certain mergers and acquisitions during 2019, 2018 and 2017; 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 year of such acquisitions are not comparable with previous periods. The consolidated statements of cash flows for the years ended December 31, 2019, 2018 and 2017 show the cash outflow and inflow for the merged and acquired operations net of the cash acquired related to those mergers and acquisitions.

4.1.1 Acquisitions of Coca-Cola FEMSA

Coca-Cola FEMSA finalized the allocation of the purchase price to the fair values of the identifiable assets acquired and liabilities assumed for acquisitions completed during the prior year, with no significant variations to the preliminary allocation to the fair value of the net assets acquired, which were included in its audited annual consolidated financial statements as at and for the year ended December 31, 2018, primarily related to the following: (1) acquisition of 100% of the Alimentos y Bebidas del Atlántico, S.A. ("ABASA") in Guatemala, included in the Company results since May, 2018; (2) acquisition of 100% of Comercializadora y Distribuidora Los Volcanes, S.A. ("Los Volcanes") in Guatemala included in the Company' consolidated results beginning on May, 2018; and (3) acquisition of 100% of Montevideo Refrescos, S.R.L. ("MONRESA") in Uruguay which is included in the consolidated financial results beginning on July 2018.

The final allocation on the purchase prices to the fair value of the net assets acquired is as follows:

		2018
Total current assets (including cash acquired of Ps. 860)	Ps.	1,864
Total non-current assets		4,031
Distribution rights		1,715
Total assets		7,610
Total liabilities		(3,691)
Net assets acquired		3,649
Goodwill [1]		2,903
Total consideration transferred		6,552
Cash acquired		(860)
Net cash paid	Ps.	5,692

[1] As a result of the purchase price allocation which was finalized in 2019, additional fair value adjustments from those recognized in 2018 have been recognized as follows: decrease in total non-current assets amounted to Ps. 236, distribution rights of Ps. 2,887 and increase in goodwill of Ps. 2,903.

Coca-Cola FEMSA expects to recover the registered amounts recorded as goodwill through the synergies related to the available production capacity.

The income statement information of these acquisitions for the period from the acquisition date through to December 31, 2018 is as follows:

Income Statement		2018
Total revenues	Ps.	4,628
Income before income taxes		496
Net income	Ps.	413

4.1.2 Other acquisitions

During 2019, the Company completed acquisitions which in the aggregate amounted to Ps. 7,671. These acquisitions, among other smaller acquisitions, were primarily related to the following: 1) as of April 30, 2019, the Company completed through FEMSA Comercio S.A. de C.V., the acquisition of 100% of the Ecuadorian company Corporación Grupo FYBECA S.A. ("GPF"), pharmaceutic leader in Quito, Ecuador, mainly under the brands of Fybeca and SanaSana, which is included in the Company's results since May, 2019; and (2) in December 2019, the Company completed through one of its logistic's subsidiaries, the acquisition of 100% of Brazilian company AGV Group ("AGV") founded in 1998, leader in integral logistic services in Brazil which operates a value-added warehousing and distribution platform of warehousing space located across 15 states in Brazil and over 2,600 employees.

The Company is in the process of finalizing the allocation of the purchase price to the fair values of the identifiable assets acquired and liabilities assumed. This process is expected to be completed for each acquisition within 12 months of the acquisition date.

The preliminary allocation on the aggregated purchase prices to the fair value of the net assets acquired is as follows:

		2019
Total current assets (including cash acquired of Ps. 389)	**Ps.**	**4,085**
Total non-current assets		**5,250**
Total assets		**9,335**
Total liabilities		**8,153**
Net assets acquired		**1,182**
Goodwill		**6,542**
Non-controlling interest		**(53)**
Total consideration transferred		**7,671**
Amount to be paid		**(147)**
Cash acquired		**(389)**
Net cash paid	**Ps.**	**7,135**

During 2019, FEMSA Comercio has been allocated goodwill in the acquisitions in FEMSA Comercio- Health Division in Ecuador and Colombia. 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.

The income statement information of these acquisitions for the period from the acquisition date through to December 31, 2019 is as follows:

Income Statement		2019
Total revenues	**Ps.**	**8,594**
Income before income taxes		**37**
Net loss	**Ps.**	**1**

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 acquisitions of GPF and AGV; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired company.

Unaudited pro forma financial data for the acquisitions, is as follow:

	Unaudited pro forma financial information for the year ended December 31, 2019
Total revenues	**Ps. 516,496**
Income before income taxes and share of the profit of equity accounted investees	**33,823**
Net income	**29,516**
Basic net controlling interest income per share Series "B"	**Ps. 1.11**
Basic net controlling interest income per share Series "D"	**1.38**

On May 22, 2018, the Company acquired an additional 10% its participation in Café del Pacífico, S.A.P.I. de C.V. ("Caffenio"), a Mexican company founded in 1941 whose main activities includes the production of coffee and beverages formulas, commercialization of beverages and whole foods and trading of commercial contracts, for an amount of Ps. 370 and reaching a controlling interest of 50% of ownership, through an agreement with other shareholders assuming control of the subsidiary.

The following unaudited consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the acquisitions of Coca-Cola FEMSA and Caffenio as if these acquisitions has occurred on January 1, 2018; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired company.

Unaudited pro forma financial data for the acquisitions, is as follow:

	Unaudited pro forma financial information for the year ended December 31, 2018
Total revenues	Ps. 473,420
Income before income taxes and share of the profit of equity accounted investees	34,266
Net income	33,521
Basic net controlling interest income per share Series "B"	Ps. 1.22
Basic net controlling interest income per share Series "D"	1.52

The following unaudited consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the acquisition of Coca-Cola FEMSA Philippines as if this acquisition has occurred on January 1, 2017; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired company.

Unaudited pro forma financial data for the acquisition included, is as follow:

	Unaudited pro forma financial information for the year ended December 31, 2017
Total revenues	Ps. 462,112
Income before income taxes and share of the profit of equity accounted investees	39,917
Net income	37,311
Basic net controlling interest income per share Series "B"	Ps. 2.12
Basic net controlling interest income per share Series "D"	2.65

4.2 Disposals

4.2.1 Discontinued operations (Coca-Cola FEMSA Philippines)

On August 16, 2018, Coca-Cola FEMSA announced its decision to exercise the put option to sell its 51% stake in CCFPI to The Coca-Cola Company. Such decision was approved by the Company's board on August 6, 2018. Consequently beginning August 31, 2018 CCFPI had been classified as an asset held for sale and its operations as a discontinued operation in the financial statements for December 31, 2017 and 2018. Previously CCFPI represented the Asia division and was considered an independent segment until December 31, 2017. Coca-Cola FEMSA Philippines operations was sold on December 13, 2018. In addition, the income statement as of December 2017 was restated.

Income statement of discontinued operations

For the years ended December 31, 2018 and 2017, the income statement of discontinued operations was as follows:

		2018		2017
Total revenues	Ps.	24,167	Ps.	20,524
Cost of goods sold		17,360		12,346
Gross profit		6,807		8,178
Operating expenses		5,750		6,865
Other expenses, net		7		134
Financial income, net		(185)		(64)
Foreign exchange gain, net		(73)		(22)
Income before income taxes		1,308		1,265
Income taxes		466		370
Net income for discontinued operations	Ps.	842	Ps.	895
Less: non-controlling interest in discontinued operations		391		469
Controlling interest in discontinued operations	Ps.	451	Ps.	426
Accumulated currency translation effect for the subsidiary disposal		(811)		2,830
Gain from sale		3,335		–
Net income for subsidiary disposal – controlling interest		2,975		3,256
Net income from discontinued operations	Ps.	3,366	Ps.	3,725

4.2.2 Heineken

During 2017, the Company sold a portion of its investment in Heineken Group, representing 5.2% of economic interest for Ps. 53,051 in an all cash transaction. With this transaction the Company took advantage of a Repatriation of Capital Decree issued by the Mexican government which was valid from January 19 until October 19, 2017; through this decree, a fiscal benefit was attributed to the Company due to repatriated resources obtained from the sale of shares. The Company recognized a gain of Ps. 29,989, as a result of the sales of shares within other income, which is the difference between the fair value of the consideration received and the book value of the net assets disposed. The gain is net of transaction related costs of Ps. 160 and includes reclassification from other comprehensive income of exchange differences on translation which amount to Ps. 6,632. Also, the Company reclassified from other comprehensive income to consolidated net income a total loss of Ps. 2,431, relating to the Company's share of hedging reserve and translation reserve of Heineken investment attributable to the portion of shares sold. None of the Company's other disposals was individually significant, see Note 20.

Note 5. Cash and Cash Equivalents

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 are subject to an insignificant risk of changes in value, with a maturity date of three months or less at their acquisition date. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statements of financial position and cash flows is comprised of the following:

	December 31, 2019	December 31, 2018
Cash and bank balances	**Ps. 31,905**	Ps. 31,768
Cash equivalents (see Note 3.5)	**33,657**	30,279
	Ps. 65,562	Ps. 62,047

Note 6. Investments

As of December 31, 2019 and 2018, current investments with maturity greater than three-month period but less than twelve-month period are classified at amortized cost, and their carrying value is similar to their fair value. The following is a detail of such investments:

Fixed rate		
Corporate debt securities	**2019**	**2018**
Acquisition cost	**Ps. 1,048**	Ps. 906
Accrued interest	**4**	4
Total fixed rate	**1,052**	910
Variable rate		
Government debt securities		
Acquisition cost	**–**	8,660
Accrued interest	**–**	28
Corporate debt securities		
Acquisition cost	**11,307**	21,259
Accrued interest	**7**	67
Total variable rate	**11,314**	30,014
Total investments	**Ps. 12,366**	Ps. 30,924

Note 7. Trade Accounts Receivable, Net

	December 31, 2019	December 31, 2018
Trade accounts receivables	**Ps. 26,942**	Ps. 25,615
The Coca-Cola Company (see Note 15)	**813**	1,173
Loans to employees	**115**	108
Heineken Group (see Note 15)	**749**	768
Others	**3,203**	2,614
Allowance for expected credit losses	**(2,189)**	(2,114)
	Ps. 29,633	Ps. 28,164

7.1 Trade receivables

Trade receivables representing rights arising from sales and loans to employees or any other similar concept, are presented net of discounts and the allowance for expected credit losses.

Coca-Cola FEMSA has accounts receivable from The Coca-Cola Company arising from the latter's participation in advertising and promotional programs.

Because less than 9% of the trade accounts receivables is unrecoverable, the Company does not have customers classified as "high risk", which would be eligible to have special management conditions for the credit risk.

As of December 31, 2019, the main customers of the Company represent, in aggregate form, the expected loss on 14%.

The allowance is calculated under an expected loss model that recognizes the impairment losses throughout the life of the contract. For this particular case, because the accounts receivable is generally less than one year, the Company defined an impairment estimation model under a simplified approach of expected loss through a parametric model.

The parameters used within the model are:

- Breach probability;
- Losses severity;
- Financing rate;
- Special recovery rate; and
- Breach exposure.

Aging of accounts receivable (days current or outstanding)

	December 31, 2019	December 31, 2018
Current	**Ps. 24,696**	Ps. 22,789
0-30 days	**3,278**	4,081
31-60 days	**1,345**	869
61-90 days	**668**	598
91-120 days	**244**	241
120+ days	**1,591**	1,700
Total	**Ps. 31,822**	Ps. 30,278

7.2 Changes in the allowance for expected credit losses

	2019	2018	2017
Balance at the beginning of the period	**Ps. 2,114**	Ps. 1,375	Ps. 1,193
Effect of adoption of IFRS 9	**–**	468	–
Adjusted balance at the beginning of the period	**2,114**	1,843	1,193
Allowance for the period	**709**	348	530
Additions (write-offs) of uncollectible accounts [1]	**(269)**	(402)	(400)
Addition from business combinations	**–**	1	86
Effects of changes in foreign exchange rates	**(365)**	324	(32)
Effect of Venezuela deconsolidation	**–**	–	(2)
Balance at the end of the period	**Ps. 2,189**	Ps. 2,114	Ps. 1,375

[1] In 2018, includes the effect of Coca-Cola FEMSA Philippines, Inc. sale for an aggregate amount of $82.

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 Receivable 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, 2019, 2018 and 2017 contributions due were Ps. 2,274, Ps. 3,542 and Ps. 3,436, respectively.

Note 8. Inventories

	December 31, 2019	December 31, 2018
Finished products	**Ps. 32,853**	Ps. 27,145
Raw materials	**5,331**	5,363
Spare parts	**1,198**	1,362
Work in process	**113**	225
Inventories in transit	**1,528**	1,591
	Ps. 41,023	Ps. 35,686

For the years ended 2019, 2018 and 2017, the Company recognized write-downs of its inventories for Ps. 2,992, Ps. 2,006 and Ps. 308 to net realizable value, respectively.

For the years ended 2019, 2018 and 2017, changes in inventories are comprised as follows and included in the consolidated income statement under the cost of goods sold caption:

	2019	2018	2017
Changes in inventories of finished goods and work in progress	**Ps. 221,540**	Ps. 204,688	Ps. 188,022
Raw materials and consumables used	**84,502**	79,825	85,568
Total	**Ps. 306,042**	Ps. 284,513	Ps. 273,590

Note 9. Other Current Assets and Other Current Financial Assets

9.1 Other current assets

	December 31, 2019	December 31, 2018
Prepaid expenses	**Ps. 2,201**	Ps. 2,714
Recoverable taxes	**268**	316
Agreements with customers	**294**	146
Licenses	**575**	146
Assets classified as held for sale	**197**	49
Other	**553**	49
	Ps. 4,088	Ps. 3,420

As of December 31, 2019 and 2018, Company's prepaid expenses are as follows:

	December 31, 2019	December 31, 2018
Advances for inventories	**Ps. 1,359**	Ps. 1,500
Advertising and promotional expenses paid in advance	**89**	510
Advances to service suppliers	**60**	236
Prepaid leases	**239**	211
Prepaid insurance	**129**	117
Others	**325**	140
	Ps. 2,201	Ps. 2,714

For the years ended December 31, 2019, 2018 and 2017, Company's advertising and promotional expenses amounted to Ps. 8,840, Ps. 7,695 and Ps. 6,148, respectively.

9.2 Other current financial assets

	December 31, 2019	December 31, 2018
Restricted cash	**Ps. 92**	Ps. 101
Derivative financial instruments (see Note 21)	**1,008**	735
Note receivables [1]	**46**	42
	Ps. 1,146	Ps. 878

[1] The carrying value approximates its fair value as of December 31, 2019 and 2018.

The Company has pledged part of its cash in order to fulfill the collateral requirements for the accounts payable in different currencies. As of December 31, 2019 and 2018, the carrying of restricted cash pledged were:

	December 31, 2019	December 31, 2018
Brazilian reais	**Ps. 89**	Ps. 98
Chilean pesos	**3**	3
	Ps. 92	Ps. 101

The restricted cash in Brazil consist in current deposits as requirements to guarantee the notes payable.

Note 10. Equity Accounted Investees

As of December 31, 2019 and 2018, Company's equity accounted investees are as follows:

			Ownership Percentage		Carrying Value	
Investee	Principal Activity	Place of Incorporation	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Heineken [1] [2]	Beverages	The Netherlands	**14.8%**	14.8%	**Ps. 83,789**	Ps. 83,461
Coca-Cola FEMSA:						
Joint ventures:						
Compañía Panameña de Bebidas, S.A.P.I. de C.V.	Beverages	Mexico	**50.0%**	50.0%	**486**	1,550
Dispensadoras de Café, S.A.P.I. de C.V.	Services	Mexico	**50.0%**	50.0%	**172**	162
Fountain Agua Mineral, L.T.D.A.	Beverages	Brazil	**50.0%**	50.0%	**851**	826
Associates:						
Promotora Industrial Azucarera, S.A. de C.V. ("PIASA")	Sugar production	Mexico	**36.4%**	36.4%	**3,274**	3,120
Industria Envasadora de Querétaro, S.A. de C.V. ("IEQSA")	Canned bottling	Mexico	**26.5%**	26.5%	**194**	179
Industria Mexicana de Reciclaje, S.A. de C.V. ("IMER")	Recycling	Mexico	**35.0%**	35.0%	**121**	129
Jugos del Valle, S.A.P.I. de C.V.	Beverages	Mexico	**28.8%**	26.3%	**1,929**	1,571
Leao Alimentos e Bebidas, L.T.D.A.	Beverages	Brazil	**24.7%**	24.7%	**1,931**	2,084
Other investments in Coca-Cola FEMSA's companies	Various	Various	**Various**	Various	**793**	897
FEMSA Comercio:						
Raizen Conveniências [4]	Proximity	Brazil	**50.0%**	–	**3,410**	–
Other investments [1] [3]	Various	Various	**Various**	Various	**520**	336
					Ps. 97,470	Ps. 94,315

[1] Associate.

[2] As of December 31, 2019 and 2018 comprised of 8.63% of Heineken, N.V. and 12.26% of Heineken Holding, N.V., which represents an economic interest of 14.76% in Heineken Group. 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 Group.

[3] Joint ventures.

[4] On November 1, 2019, FEMSA Comercio – Proximity Division closed the acquisition of a 50% interest of Raízen Conveniências. The consideration amounted to R$ 357 million paid in cash and R$ 367 through notes payable, and such amounts include FEMSA Comercio's prorrata portion of the investment requirements for the initial period of operations of the joint venture. Raízen is a company formed in 2010 from Cosan and Royal Dutch Shell in Brazil. The Joint Venture between FEMSA Comercio – Proximity Division and Raízen is limited to the convenience and proximity store business and excludes any other Raízen operations.

During 2019, Coca-Cola FEMSA received dividends from Promotora Mexicana de Embotelladores, S.A. de C.V. for the amount of Ps. 1 and during 2018, Coca-Cola FEMSA received dividends from Industria Envasadora de Querétaro, S.A. de C.V. for the amount of Ps. 8.

During 2019 Coca-Cola FEMSA made capital contributions to Jugos del Valle, S.A.P.I. de C.V. and Promotora Industrial Azucarera, S.A. de C.V. in the amounts of Ps. 204 and Ps. 111, respectively, there were no changes in the ownership percentage of Promotora Industrial Azucarera, S.A. de C.V. as a result of capital contributions made by the other shareholders. During 2018 the Company made capital contributions to Jugos del Valle, S.A.P.I. de C.V. and Promotora Industrial Azucarera, S.A. de C.V. in the amounts of Ps. 73 and Ps. 146, respectively, there were no changes in the ownership percentage as a result of capital contributions made by the other shareholders. During 2018, there was a spin-off for our investment in UBI 3 resulted in a loss of Ps. 333 capitalized.

As of December 31, 2019 and 2018, Coca-Cola FEMSA recognized an impairment, in their investment Compañía Panameña de Bebidas, S.A.P.I. de C.V., for an amount of Ps. 948 and Ps. 432 million charged as other expenses line, respectively. The Company will continue to monitor the results of this investment in conjunction with its partner The Coca-Cola Company, looking for alternatives to improve the business profitability in the near future.

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. On September 18, 2017, the Company concluded the sale of a portion of its investment, representing 5.2% combined economic interest, consisting of 22,485,000 Heineken N.V. shares and 7,700,000 Heineken Holding N.V. shares at the price of €. 84.50 and €. 78.00 per share, respectively, see Note 4.2. The Company recognized an equity income of Ps. 6,428, Ps. 6,478 and Ps. 7,847 net of taxes based on its economic interest in Heineken Group for the years ended December 31, 2019, 2018 and 2017, respectively. The economic interest for the year 2019 and 2018 was 14.8%. The Company's share of the net income attributable to equity holders of Heineken Group exclusive of amortization of adjustments amounted to Ps. 6,885 (€. 319 million), Ps. 6,320 (€. 281 million) and Ps. 7,656 (€. 357 million), for the years ended December 31, 2019, 2018 and 2017, respectively. Summarized financial information in respect of the associate Heineken Group accounted for under the equity method is set out below.

	December 31, 2019		December 31, 2018	
Amounts in millions	Peso	Euro	Peso	Euro
Total current assets	**Ps. 177,829**	**€. 8,419**	Ps. 205,662	€. 9,125
Total non-current assets	**804,443**	**38,085**	744,350	33,026
Total current liabilities	**259,952**	**12,307**	235,052	10,429
Total non-current liabilities	**356,671**	**16,886**	360,928	16,014
Total equity	**365,648**	**17,311**	354,032	15,708
Equity attributable to equity holders [1]	**341,062**	**16,147**	327,369	14,525
Total revenue and other income	**Ps. 511,125**	**€. 24,064**	Ps. 517,528	€. 22,564
Total cost and expenses	**433,959**	**20,431**	445,945	19,443
Net income	**Ps. 50,424**	**€. 2,374**	Ps. 48,280	€. 2,105
Net income attributable to equity holders	**46,006**	**2,166**	43,877	1,913
Other comprehensive income	**3,951**	**186**	(1,170)	(51)
Total comprehensive income	**Ps. 54,375**	**€. 2,560**	Ps. 47,111	€. 2,054
Total comprehensive income attributable to equity holders	**49,447**	**2,328**	42,615	1,858

[1] Following the IFRS Interpretations Committee agenda decision in January 2019 regarding tax deposits (relating to taxes other than income tax), Heineken Group changed its accounting policy with regards to payments relating to contingent liabilities. This change in accounting policy has been recognised retrospectively in Heineken Financial Statements and increased equity as at 1 January 2018 by €. 157 million. The impact on 2018 profit amounts to an increase of €. 10 million. For further information please refer to Heineken's Annual Report.

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

	December 31, 2019		December 31, 2018	
Amounts in millions	Peso	Euro	Peso	Euro
Equity attributable to equity holders of Heineken [1]	**Ps. 341,062**	**€. 16,147**	Ps. 323,608	€. 14,358
Economic ownership percentage	**14.76%**	**14.76%**	14.76%	14.76%
Investment in Heineken investment exclusive of goodwill and other adjustments	**Ps. 50,341**	**€. 2,383**	Ps. 47,765	€. 2,119
Effects of fair value determined by purchase price allocation	**14,839**	**703**	15,846	703
Goodwill	**18,609**	**881**	19,850	881
Heineken investment	**Ps. 83,789**	**€. 3,967**	Ps. 83,461	€. 3,703

[1] Related to the change in Heineken's accounting policy mentioned in the table above, the Company recognized the accumulated effects as of January 1, 2019.

As of December 31, 2019 and 2018, the fair value of Company's investment in Heineken N.V. Holding and Heineken N.V. represented by shares equivalent to 14.8% of its outstanding shares amounted to Ps. 164,504 (€. 7,769 million) and Ps. 145,177 (€. 6,441 million) based on quoted market prices of those dates. As of February 27, 2020, issuance date of these consolidated financial statements, fair value amounted to €. 7,556 million.

During the years ended December 31, 2019, 2018 and 2017, the Company received dividends distributions from Heineken Group, amounting to Ps. 3,031, Ps. 2,872 and Ps. 3,250, respectively.

For the years ended December 31, 2019, 2018 and 2017 the equity earnings recognized for associates of Coca-Cola FEMSA was Ps. 84, Ps. 44 and Ps. 235, respectively.

For the years ended December 31, 2019, 2018 and 2017 the equity (loss) earnings recognized for joint ventures of Coca-Cola FEMSA was a loss of Ps. 215, Ps. 270 and Ps. 175, respectively.

For the year ended December 31, 2019, 2018 and 2017, the Company's share of other comprehensive income from equity investees, net of taxes are as follows:

	2019	2018	2017
Items that may be reclassified to consolidated net income:			
Valuation of the effective portion of derivative financial instruments	**Ps. –**	Ps. (355)	Ps. 252
Exchange differences on translating foreign operations	**1,058**	(5)	(2,265)
Total	**Ps. 1,058**	Ps. (360)	Ps. (2,013)
Items that may not be reclassified to consolidated net income in subsequent periods:			
Remeasurements of the net defined benefit liability	**Ps. (389)**	Ps. 597	Ps. 69

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
Cost as of January 1, 2017	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
Additions	465	1,474	6,150	389	3,201	8,878	57	224	20,838
Additions from business acquisitions	5,115	1,634	5,988	482	3,324	821	145	–	17,509
Transfer of completed projects in progress	6	676	3,073	1,967	558	(8,572)	2,295	(3)	–
Transfer (to)/from assets classified as held for sale	–	–	(42)	–	–	–	–	(58)	(100)
Disposals	(144)	(588)	(3,147)	(800)	(193)	–	(352)	(12)	(5,236)
Effects of changes in foreign exchange rates	(1,018)	(1,964)	(2,817)	(1,523)	(1,216)	(720)	153	(1,201)	(10,306)
Changes in value on the recognition of inflation effects	527	1,016	2,030	689	(2)	226	–	638	5,124
Venezuela deconsolidation effect (see Note 3.3)	(544)	(817)	(1,300)	(717)	(83)	(221)	–	(646)	(4,328)
Cost as of December 31, 2017	Ps. 13,589	Ps. 25,972	Ps. 80,302	Ps. 17,465	Ps. 21,532	Ps. 7,390	Ps. 19,666	Ps. 1,028	Ps. 186,944
Cost as of January 1, 2018	Ps. 13,589	Ps. 25,972	Ps. 80,302	Ps. 17,465	Ps. 21,532	Ps. 7,390	Ps. 19,666	Ps. 1,028	Ps. 186,944
Additions	334	877	6,926	644	2,888	6,482	3,322	111	21,584
Additions from business acquisitions	25	451	4,128	537	393	290	2	41	5,867
Transfer of completed projects in progress	526	567	2,193	1,711	3	(4,927)	(93)	20	–
Transfer (to)/from assets classified as held for sale	–	–	(127)	–	–	–	–	–	(127)
Disposals	(93)	(152)	(4,623)	(614)	(312)	(633)	(748)	(21)	(7,196)
Philippines disposal	(4,654)	(2,371)	(11,621)	(2,415)	(10,116)	(489)	(236)	–	(31,902)
Effects of changes in foreign exchange rates	(401)	(1,079)	(3,526)	(759)	(251)	(330)	(354)	(293)	(6,993)
Effects on the recognition of inflation effects	242	816	2,552	465	612	66	–	9	4,762
Cost as of December 31, 2018	Ps. 9,568	Ps. 25,081	Ps. 76,204	Ps. 17,034	Ps. 14,749	Ps. 7,849	Ps. 21,559	Ps. 895	Ps. 172,939
Cost as of January 1, 2019	**Ps. 9,568**	**Ps. 25,081**	**Ps. 76,204**	**Ps. 17,034**	**Ps. 14,749**	**Ps. 7,849**	**Ps. 21,559**	**Ps. 895**	**Ps. 172,939**
Additions	**309**	**1,134**	**6,826**	**636**	**2,581**	**8,421**	**2,907**	**112**	**22,926**
Additions from business acquisitions	**146**	**806**	**686**	**–**	**–**	**–**	**466**	**–**	**2,104**
Changes in the fair value of past acquisitions	**142**	**227**	**50**	**(13)**	**–**	**–**	**7**	**(8)**	**405**
Transfer of completed projects in progress	**(253)**	**581**	**3,694**	**1,396**	**359**	**(6,284)**	**496**	**11**	**–**
Transfer (to)/from assets classified as held for sale	**–**	**–**	**(410)**	**–**	**–**	**–**	**–**	**(49)**	**(459)**
Disposals	**(15)**	**(254)**	**(3,195)**	**(1,032)**	**(1,056)**	**(33)**	**(170)**	**(38)**	**(5,793)**
Effects of changes in foreign exchange rates	**(329)**	**(1,147)**	**(2,463)**	**(961)**	**(833)**	**(370)**	**26**	**(130)**	**(6,207)**
Effects on the recognition of inflation effects	**114**	**366**	**1,254**	**241**	**352**	**18**	**–**	**–**	**2,345**
Cost as of December 31, 2019	**Ps. 9,682**	**Ps. 26,794**	**Ps. 82,646**	**Ps. 17,301**	**Ps. 16,152**	**Ps. 9,601**	**Ps. 25,291**	**Ps. 793**	**Ps. 188,260**

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, 2017	Ps. –	Ps. (5,553)	Ps. (30,263)	Ps. (8,723)	Ps. (10,266)	Ps. –	Ps. (5,556)	Ps. (859)	Ps. (61,220)
Depreciation for the year	–	(887)	(6,928)	(2,186)	(3,365)	–	(1,562)	(685)	(15,613)
Transfer to/(from) assets classified as held for sale	–	44	7	–	–	–	–	–	51
Disposals	–	40	3,125	683	103	–	300	5	4,256
Effects of changes in foreign exchange rates	–	518	437	1,157	93	–	(138)	940	3,007
Venezuela deconsolidation effect	–	481	1,186	626	56	–	–	335	2,684
Venezuela impairment	–	(257)	(841)	–	–	–	–	–	(1,098)
Changes in value on the recognition of inflation effects	–	(437)	(1,031)	(553)	(44)	–	–	(234)	(2,299)
Accumulated Depreciation as of December 31, 2017	Ps. –	Ps. (6,051)	Ps. (34,308)	Ps. (8,996)	Ps. (13,423)	Ps. –	Ps. (6,956)	Ps. (498)	Ps. (70,232)
Accumulated Depreciation as of January 1, 2018	Ps. –	Ps. (6,051)	Ps. (34,308)	Ps. (8,996)	Ps. (13,423)	Ps. –	Ps. (6,956)	Ps. (498)	Ps. (70,232)
Depreciation for the year	–	(786)	(7,437)	(1,752)	(2,827)	–	(1,763)	(133)	(14,698)
Transfer to/(from) assets classified as held for sale	–	–	78	–	–	–	–	–	78
Disposals	–	69	4,970	579	204	–	571	–	6,393
Philippines disposal	–	700	6,125	2,083	7,225	–	77	–	16,210
Effects of changes in foreign exchange rates	–	112	404	250	631	–	141	143	1,681
Changes in value on the recognition of inflation effects	–	(223)	(2,692)	(338)	(516)	–	–	–	(3,769)
Accumulated Depreciation as of December 31, 2018	Ps. –	Ps. (6,179)	Ps. (32,860)	Ps. (8,174)	Ps. (8,706)	Ps. –	Ps. (7,930)	Ps. (488)	Ps. (64,337)
Accumulated Depreciation as of January 1, 2019	**Ps. –**	**Ps. (6,179)**	**Ps. (32,860)**	**Ps. (8,174)**	**Ps. (8,706)**	**Ps. –**	**Ps. (7,930)**	**Ps. (488)**	**Ps. (64,337)**
Depreciation for the year	**–**	**(937)**	**(7,862)**	**(1,862)**	**(2,734)**	**–**	**(1,985)**	**(88)**	**(15,468)**
Transfer to/(from) assets classified as held for sale	**–**	**–**	**262**	**–**	**–**	**–**	**–**	**–**	**262**
Disposals	**–**	**46**	**1,967**	**966**	**1,079**	**–**	**115**	**31**	**4,204**
Effects of changes in foreign exchange rates	**–**	**264**	**1,249**	**583**	**572**	**–**	**64**	**63**	**2,795**
Changes in value on the recognition of inflation effects	**–**	**(92)**	**(629)**	**(164)**	**(302)**	**–**	**(2)**	**(14)**	**(1,203)**
Accumulated Depreciation as of December 31, 2019	**Ps. –**	**Ps. (6,898)**	**Ps. (37,873)**	**Ps. (8,651)**	**Ps.(10,091)**	**Ps. –**	**Ps. (9,738)**	**Ps. (496)**	**Ps. (73,747)**

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, 2017	Ps. 13,589	Ps. 19,921	Ps. 45,994	Ps. 8,469	Ps. 8,109	Ps. 7,390	Ps. 12,710	Ps. 530	Ps. 116,712
As of December 31, 2018	Ps. 9,568	Ps. 18,902	Ps. 43,344	Ps. 8,860	Ps. 6,043	Ps. 7,849	Ps. 13,629	Ps. 407	Ps. 108,602
As of December 31, 2019	**Ps. 9,682**	**Ps. 19,896**	**Ps. 44,773**	**Ps. 8,650**	**Ps. 6,061**	**Ps. 9,601**	**Ps. 15,553**	**Ps. 297**	**Ps. 114,513**

For the years ended December 31, 2019, 2018 and 2017, the Company did not recognize any capitalization of borrowing costs.

Note 12. Leases

As of December 31, 2019, consolidated right-of-use assets reported in our financial statements was as follows:

	Land and buildings	Other [1]	Total
Cost as of January 1, 2019	Ps. 49,112	1,108	50,220
Additions	7,406	96	7,502
Additions from business combinations	2,187	–	2,187
Disposals	(827)	(5)	(832)
Remeasurements	2,299	(9)	2,290
Depreciation	(7,492)	(401)	(7,893)
Effects of changes in foreign exchange rates and restatement effects associated with hyperinflationary economies	(759)	(31)	(790)
Right-of-use assets, net as of December 31, 2019	Ps. 51,926	758	52,684

[1] Other assets mailny include transportation equipment and servers.

As of December 31, 2019, the lease liabilites are integrated as follows:

	December 31, 2019
Maturity analysis – contractual undiscounted cash flows	
Less than one year	Ps. 10,655
One to five years	40,262
Five to ten years	24,053
More than ten years	11,884
Total undiscounted lease liabilities at December 31	86,854
Lease liabilities included in the statement of financial position at December 31	54,679
Current	7,387
Non-Current	Ps. 47,292

The interest expense for leases reported in the income statements for the twelve-month period ended December 31, 2019 was Ps. 4,774.

The expense relating to short-term leases and leases of low-value assets for the twelve-month period ended December 31, 2019 was Ps. 430.

For the year ended December 31, 2019, the amounts recognized in the consolidated statement of cash flows related to leases is Ps. 8,848.

12.1 Land and buildings leases

The Company leases land for constructions of its retail stores mainly and some buildings for its office space. The leases of retail stores typically run for an average useful life of 15 years, and leases of office space for three to five years. Some leases include an option to renew the lease for additional period at the end of the contract term.

Some leases provide for additional rent payments that are based on changes in the National Consumer and Price Index, or sales that the Company makes at the leased store in the period.

Variable lease payments based on sales

Some leases of retail stores contain variable lease payments that are based on sales that the Company makes at the store. Variable rental payments in the Company do not represent a significant impact in profit and loss amounts for the year ended December 31, 2019.

The Company expects the relative proportions of fixed and variable lease payments to remain broadly consistent in future years.

Extension options

Some leases of office buildings, cellars and retail stores contain extension options exercisable by the Company up to one year before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by FEMSA and not by the lessor, in other words, the lessee has the unilateral right to exercise the extension option. The Company assesses at lease commencement whether it is reasonably certain to exercise the extension options. FEMSA reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control. Except for some business units, FEMSA consider that the "reasonably certain" criteria is met when a new lease contract is signed by both, the Company and the lessor, which usually occurs within a short period of the expiration of the current lease term. Extension options on leases in the Company do not represent a significant impact on the right-of-use assets at December 31, 2019.

12.2 Other leases

The Company leases vehicles, servers and equipment, with lease terms from three to five years. In some cases, the Company has options to purchase the assets at the end of the contract term. At the commencement date, the Company does not expect to exercise the purchase option.

FEMSA also leases IT equipment and machinery with contract terms from one to three years. These leases are short-term and/or leases of low-value items. The Company has elected not to recognize right-of-use assets and lease liabilities for these types of leases.

Note 13. Intangible Assets

	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, 2017	Ps. 85,338	Ps. 51,857	Ps. 6,225	Ps. 2,151	Ps. 145,571	Ps. 6,124	Ps. 798	Ps. 1,416	Ps. 2,338	Ps. 10,676	Ps. 156,247
Additions	1,288	–	–	6	1,294	464	920	221	445	2,050	3,344
Acquisitions from business combinations (see Note 4)	4,144	140	5	–	4,289	6	–	–	80	86	4,375
Changes in fair value of past acquisitions	5,167	(7,022)	836	9	(1,010)	(188)	–	–	892	704	(306)
Transfer of completed development systems	–	–	–	–	–	412	(412)	–	–	–	–
Disposals	–	–	–	–	–	110	–	–	–	110	110
Effect of movements in exchange rates	(2,563)	(1,526)	119	91	(3,879)	175	(15)	–	52	212	(3,667)
Changes in value on the recognition of inflation effects	(727)	–	–	–	(727)	–	–	–	175	175	(552)
Venezuela deconsolidation effect	(745)	–	–	–	(745)	–	–	–	(139)	(139)	(884)
Cost as of December 31, 2017	Ps. 91,902	Ps. 43,449	Ps. 7,185	Ps. 2,257	Ps. 144,793	Ps. 7,103	Ps. 1,291	Ps. 1,637	Ps. 3,843	Ps. 13,874	Ps. 158,667

	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, 2018	Ps. 91,902	Ps. 43,449	Ps. 7,185	Ps. 2,257	Ps. 144,793	Ps. 7,103	Ps. 1,291	Ps. 1,637	Ps. 3,843	Ps. 13,874	Ps. 158,667
Additions	–	75	–	71	146	1,051	371	131	94	1,647	1,793
Acquisitions from business combinations (see Note 4)	4,602	842	170	–	5,614	35	57	–	291	383	5,997
Changes in fair value of past acquisitions	–	272	–	–	272	–	–	–	–	–	272
Internal development	–	–	–	–	–	–	–	–	41	41	41
Transfer of completed development systems	–	–	–	–	–	904	(904)	–	–	–	–
Disposals	–	–	–	(2)	(2)	(43)	–	–	(146)	(189)	(191)
Philippines disposal	(3,882)	–	–	–	(3,882)	–	–	–	(596)	(596)	(4,478)
Effect of movements in exchange rates	(5,005)	(4,108)	(656)	(349)	(10,118)	(343)	(38)	–	(311)	(692)	(10,810)
Changes in value on the recognition of inflation effects	–	–	–	–	–	–	–	–	57	57	57
Cost as of December 31, 2018	Ps. 87,617	Ps. 40,530	Ps. 6,699	Ps. 1,977	Ps. 136,823	Ps. 8,707	Ps. 777	Ps. 1,768	Ps. 3,273	Ps. 14,525	Ps. 151,348

	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, 2019	**Ps. 87,617**	**Ps. 40,530**	**Ps. 6,699**	**Ps. 1,977**	**Ps. 136,823**	**Ps. 8,707**	**Ps. 777**	**Ps. 1,768**	**Ps. 3,273**	**Ps. 14,525**	**Ps. 151,348**
Additions	–	–	–	164	164	824	334	191	685	2,034	2,198
Acquisitions from business combinations (see Note 4)	–	6,542	469	–	7,011	759	–	–	12	771	7,782
Changes in the fair value of past acquisitions	(2,887)	2,903	–	153	169	(6)	–	–	(185)	(191)	(22)
Transfer of completed development systems	–	–	–	–	–	412	(413)	–	1	–	–
Disposals	–	–	(48)	–	(48)	(580)	–	(130)	–	(710)	(758)
Effect of movements in exchange rates	(3,475)	(2,069)	(520)	(134)	(6,198)	(553)	(23)	–	(337)	(913)	(7,111))
Changes in value on the recognition of inflation effects	–	–	–	–	–	–	–	–	(6)	(6)	(6)
Cost as of December 31, 2019	**Ps. 81,255**	**Ps. 47,906**	**Ps. 6,600**	**Ps. 2,160**	**Ps. 137,921**	**Ps. 9,563**	**Ps. 675**	**Ps. 1,829**	**Ps. 3,443**	**Ps. 15,510**	**Ps. 153,431**

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, 2017	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	Ps. (1,937)	Ps. –	Ps. (376)	Ps. (666)	Ps. (2,979)	Ps. (2,979)
Amortization expense	–	–	–	–	–	(961)	–	(81)	(217)	(1,259)	(1,259)
Impairment losses	–	–	–	–	–	(110)	–	–	–	(110)	(110)
Venezuela deconsolidation effect	–	–	–	–	–	–	–	–	(120)	(120)	(120)
Effect of movements in exchange rates	–	–	–	–	–	(254)	–	–	148	(106)	(106)
Amortization as of December 31, 2017	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	Ps. (3,262)	Ps. –	Ps. (457)	Ps. (855)	Ps. (4,574)	Ps. (4,574)

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, 2018	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	Ps. (3,262)	Ps. –	Ps. (457)	Ps. (855)	Ps. (4,574)	Ps. (4,574)
Amortization expense	–	–	–	–	–	(1,453)	–	(87)	(373)	(1,913)	(1,913)
Disposals	–	–	–	–	–	93	–	–	98	191	191
Philippines disposal	–	–	–	–	–	–	–	–	375	375	375
Effect of movements in exchange rates	–	–	–	–	–	236	–	–	(1)	235	235
Changes in value on the recognition of inflation effects	–	–	–	–	–	(51)	–	–	(1)	(52)	(52)
Amortization as of December 31, 2018	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	Ps. (4,437)	Ps. –	Ps. (544)	Ps. (757)	Ps. (5,738)	Ps. (5,738)
Amortization as of January 1, 2019	**Ps. –**	**Ps. –**	**Ps. –**	**Ps. –**	**Ps. –**	**Ps. (4,437)**	**Ps. –**	**Ps. (544)**	**Ps. (757)**	**Ps. (5,738)**	**Ps. (5,738)**
Amortization expense	**–**	**–**	**–**	**–**	**–**	**(1,351)**	**–**	**(123)**	**(337)**	**(1,811)**	**(1,811)**
Disposals	**–**	**–**	**–**	**–**	**–**	**445**	**–**	**30**	**–**	**475**	**475**
Effect of movements in exchange rates	**–**	**–**	**–**	**–**	**–**	**165**	**–**	**–**	**68**	**233**	**233**
Changes in value on the recognition of inflation effects	**–**	**–**	**–**	**–**	**–**	**(29)**	**–**	**–**	**1**	**(28)**	**(28)**
Amortization as of December 31, 2019	**Ps. –**	**Ps. –**	**Ps. –**	**Ps. –**	**Ps. –**	**Ps. (5,207)**	**Ps. –**	**Ps. (637)**	**Ps. (1,025)**	**Ps. (6,869)**	**Ps. (6,869)**

Carrying Amount	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
As of December 31, 2017	Ps. 91,902	Ps. 43,449	Ps. 7,185	Ps. 2,257	Ps. 144,793	Ps. 3,841	Ps. 1,291	Ps. 1,180	Ps. 2,988	Ps. 9,300	Ps. 154,093
As of December 31, 2018	Ps. 87,617	Ps. 40,530	Ps. 6,699	Ps. 1,977	Ps. 136,823	Ps. 4,270	Ps. 777	Ps. 1,224	Ps. 2,516	Ps. 8,787	Ps. 145,610
As of December 31, 2019	**Ps. 81,255**	**Ps. 47,906**	**Ps. 6,600**	**Ps. 2,160**	**Ps. 137,921**	**Ps. 4,356**	**Ps. 675**	**Ps. 1,192**	**Ps. 2,418**	**Ps. 8,641**	**Ps. 146,562**

For the years ended December 31, 2019 and 2018, the Company did not recognize any capitalization of borrowing costs.

On March 28, 2017 Coca-Cola FEMSA acquired distribution rights and other intangibles of AdeS soy-based beverages in its territories in Mexico and Colombia for an aggregate amount of Ps. 1,664. This acquisition was made to reinforce Coca-Cola FEMSA leadership position. For the years ended 2019, 2018 and 2017, allocation for amortization expense is as follows:

	2019	2018	2017
Cost of goods sold	**Ps. 317**	Ps. 399	Ps. 132
Administrative expenses	**953**	858	627
Selling expenses	**542**	656	500
	Ps. 1,812	Ps. 1,913	Ps. 1,259

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 a CGU.

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

	December 31, 2019	December 31, 2018
Mexico	**Ps. 56,352**	Ps. 56,352
Guatemala	**1,679**	1,853
Nicaragua	**420**	460
Costa Rica	**1,442**	1,417
Panama	**1,131**	1,182
Colombia	**4,367**	4,600
Brazil	**38,765**	42,153
Argentina	**306**	327
Uruguay	**2,626**	3,003
	Ps. 107,088	Ps. 111,347

Goodwill and distribution rights are tested for impairments annually.

The recoverable amounts are based on value in use. The value in use of a CGU is determined based on the discounted cash flows method. 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 cash flows. The cash flow 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.

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 impairment test for each CGU consider market participants' assumptions. Market participants were selected taking into consideration the size, operations and characteristics of the businesses 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 opportunity cost to a market participant, considering 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 estimated 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 a creditor in the market would consider. 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 WACC was applied as a hurdle rate to discount cash flows to get the recoverable amount of the units; the calculation assumes, size premium adjustments.

The key assumptions by CGU for impairment test as of December 31, 2019 were as follows:

CGU	Pre-tax WACC	Post-tax WACC	Expected Annual Long-Term Inflation 2020-2029	Expected Volume Growth Rates 2020-2029
Mexico	**7.3%**	**5.2%**	**3.5%**	**0.7%**
Colombia	**8.9%**	**6.2%**	**3.1%**	**4.0%**
Costa Rica	**13.8%**	**9.7%**	**2.2%**	**2.1%**
Guatemala	**9.1%**	**7.1%**	**4.0%**	**8.5%**
Nicaragua	**21.1%**	**12.4%**	**4.4%**	**3.0%**
Panamá	**8.5%**	**6.6%**	**2.0%**	**5.4%**
Argentina	**21.6%**	**14.8%**	**39.2%**	**3.7%**
Brazil	**9.3%**	**5.6%**	**3.6%**	**2.0%**
Uruguay	**9.4%**	**6.8%**	**7.4%**	**2.0%**

The key assumptions by CGU for impairment test as of December 31, 2018 were as follows:

CGU	Pre-tax WACC	Post-tax WACC	Expected Annual Long-Term Inflation 2019-2028	Expected Volume Growth Rates 2019-2028
Mexico	7.4%	5.3%	4.0%	1.4%
Colombia	7.8%	5.2%	3.1%	4.0%
Costa Rica	13.9%	9.2%	4.0%	1.6%
Guatemala	9.4%	7.5%	3.2%	7.3%
Nicaragua	21.2%	11.0%	6.2%	3.8%
Panama	9.2%	7.0%	2.4%	3.0%
Argentina	19.6%	11.3%	21.9%	2.7%
Brazil	10.7%	6.6%	3.8%	1.7%

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.

During the year ended December 31, 2017 and because the economic and operational conditions worsened in Venezuela, Coca-Cola FEMSA has recognized an impairment of the distribution rights in such country for an amount of Ps. 745, such charge has been recorded in other expenses line in the consolidated income statement.

Sensitivity to Changes in Assumptions
At December 31, 2019, 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 and concluded that no impairment would be recorded.

CGU	Change in WACC	Change in Volume Growth CAGR [1]	Effect on Valuation
Mexico	+0.4%	-1.0%	Passes by 4.9x
Colombia	+0.3%	-1.0%	Passes by 4.7x
Costa Rica	+0.8%	-1.0%	Passes by 3.4x
Guatemala	+0.4%	-1.0%	Passes by 38.5x
Nicaragua	+1.4%	-1.0%	Passes by 1.1x
Panamá	+0.2%	-1.0%	Passes by 9.7x
Argentina	+1.9%	-1.0%	Passes by 13.9x
Brazil	+0.5%	-1.0%	Passes by 1.6x
Uruguay	+0.3%	-1.0%	Passes by 3x

[1] Compound Annual Growth Rate ("CAGR").

FEMSA Comercio – Proximity Division, FEMSA Comercio – Health Division and FEMSA Comercio – Fuel Division 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. The Company has integrated its cash generating units as follow: (i) FEMSA Comercio – Proximity Division is integrated as Mexico, and (ii) FEMSA Comercio – Health Division are integrated as Mexico, Chile, Colombia and Ecuador for each of them and (iii) FEMSA Comercio – Fuel Division includes only Mexico.

As of December 31, 2019 in FEMSA Comercio – 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. 4,743.

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 cash flows. The cash flow forecasts could differ from the results obtained over time; however, the Company prepares its estimates based on the current situation of each of the CGUs or group of CGUs.

To determine the discount rate, the Company 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 CGUs consider market participants' assumptions. Market participants were selected taking into consideration the size, operations and characteristics of the businesses that are similar to those of FEMSA Comercio –Health Division.

The discount rates represent the current market assessment of the risks specific to each CGU or group of CGUs, 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 the Company 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 based on the interest-bearing borrowings the Company is obliged to service, which is equivalent to the cost of debt based on the conditions that a creditor would assess 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. The Company 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 by FEMSA Comercio – Health Division as a hurdle rate to discount cash flows to get the recoverable amount of the units; the calculation assumes size premium adjustments.

The key assumptions by CGU for impairment test as of December 31, 2019 were as follows:

CGU	Pre-tax WACC	Post-tax WACC	Expected Annual Long-Term Inflation 2020-2029	Expected Volume Growth Rates 2020-2029
South America (FEMSA Comercio – Health Division)	**9.4%**	**6.6%**	**3.0%**	**0.3%**

The key assumptions by CGU for impairment test as of December 31, 2018 were as follows:

CGU	Pre-tax WACC	Post-tax WACC	Expected Annual Long-Term Inflation 2019-2028	Expected Volume Growth Rates 2019-2028
South America (FEMSA Comercio – Health Division)	9.0%	6.3%	3.0%	0.4%

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). The Company consistently applied its methodology to determine CGU specific WACC's to perform its annual impairment testing.

Sensitivity to Changes in Assumptions

At December 31, 2019, the Company 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
FEMSA Comercio – Health Division (South America)	**+0.2%**	**-0.5%**	**Passes by 1.34x**

[1] Compound Annual Growth Rate.

Note 14. Other Assets and Other Financial Assets

14.1 Other non-current assets

	December 31, 2019	December 31, 2018
Agreement with customers	**Ps. 953**	Ps. 897
Long term prepaid advertising expenses	**341**	388
Guarantee deposits [1]	**2,407**	2,910
Prepaid bonuses	**226**	248
Advances to acquire property, plant and equipment	**203**	233
Recoverable taxes	**2,111**	1,289
Indemnifiable assets from business combinations [2]	**2,948**	3,336
Recoverable taxes from business combinations	**–**	395
Others	**1,343**	621
	Ps. 10,532	Ps. 10,317

[1] As it is customary in Brazil, the Company is required to guarantee tax, legal and labor contingencies by guarantee deposits including those related to business acquisitions. See Note 26.7.

[2] Corresponds to indemnifiable assets that are warranted by former Vonpar owners as per the share purchase agreement. See Note 4.1.3

14.2 Other non-current financial assets

	December 31, 2019	December 31, 2018
Non-current accounts receivable	**Ps. 938**	Ps. 724
Derivative financial instruments (see Note 21)	**8,260**	10,752
Investments [1]	**–**	11,810
Others	**172**	101
Other investments in equity instruments [2]	**13,310**	–
	Ps. 22,680	Ps. 23,387

[1] It represents an investment in corporate debt securities with variable interest rates, measured at amortized cost. The carrying value approximates its fair value as of December 31, 2019.

[2] Corresponds to the acquisition of a minority stake in Jetro Restaurant Depot as of November 8, 2019. Refer to Note 3.7.3.

As of December 31, 2019 and 2018, the fair value of non-current accounts receivable amounted to Ps. 724 and Ps. 740, 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 15. 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, 2019	December 31, 2018
Balances		
Due from The Coca-Cola Company (see Note 7) [1] [8]	**Ps. 802**	Ps. 1,173
Balance with BBVA, S.A. de C.V. [2]	**6,798**	11,509
Balance with JP Morgan Chase & Co. [2]	**–**	27
Balance with Grupo Scotiabank Inverlat, S.A. [3]	**510**	503
Grupo Industrial Saltillo S.A.B. de C.V. [3]	**–**	169
Due from Heineken Group [1] [3] [7]	**2,915**	2,572
Other receivables [1] [4]	**390**	565
Due to The Coca-Cola Company [5] [6] [8]	**Ps. 4,417**	Ps. 3,893
Due to BBVA, S.A. de C.V. [5]	**1,696**	4,093
Due to Heineken Group [6] [7]	**4,308**	4,753
Due to Grupo Financiero Scotiabank Inverlat, S.A. [5]	**104**	170
Other payables [6]	**2,003**	1,402

[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, 2019, 2018 and 2017, there was no expense resulting from uncollectible balances due from related parties.

Transactions	2019	2018	2017
Income:			
Services to Heineken Group [1]	**Ps. 3,380**	Ps. 3,265	Ps. 3,570
Logistic services to Grupo Industrial Saltillo, S.A. de C.V. [3]	**–**	255	457
Logistic services to Jugos del Valle [1]	**553**	369	587
Interest revenues from BBVA, S.A. de C.V. [3]	**1,456**	1,469	1,002
Interest revenues from Grupo Financiero Scotiabank Inverlat, S.A. [3]	**447**	–	–
Other revenues from related parties	**404**	242	243
Expenses:			
Purchase of concentrate from The Coca-Cola Company [2]	**Ps. 34,063**	Ps. 32,379	Ps. 30,758
Purchases of beer from Heineken Group [1] [6]	**25,215**	27,999	24,942
Purchase of coffee from Caffenio [5]	**–**	–	2,397
Purchase of baked goods and snacks from Grupo Bimbo, S.A.B. de C.V. [3]	**6,194**	5,763	4,802
Advertisement expense paid to The Coca-Cola Company [2] [4]	**1,756**	2,193	1,392
Purchase of juices from Jugos del Valle, S.A.P.I. de C.V. [1]	**4,477**	4,537	3,905
Purchase of sugar from Promotora Industrial Azucarera, S.A. de C.V. [1]	**2,728**	2,604	1,885
Interest expense and fees paid to BBVA, S.A. de C.V. [3]	**144**	230	53
Purchase of sugar from Beta San Miguel [3]	**655**	651	1,827
Purchase of sugar, cans and aluminum lids from Promotora Mexicana de Embotelladores, S.A. de C.V. [3]	**–**	739	839
Purchase of canned products from IEQSA [1]	**682**	596	804
Purchases to AdeS Alimentos y Bebidas [1]	**497**	592	–
Purchase of inventories to Leao Alimentos e Bebidas, L.T.D.A. [1]	**1,867**	2,654	4,010
Advertising paid to Grupo Televisa, S.A.B. [3]	**115**	113	107
Insurance premiums for policies with Grupo Nacional Provincial, S.A.B. [3]	**–**	12	32
Donations to Fundación FEMSA, A.C. [3]	**195**	232	23
Donations to Difusión y Fomento Cultural, A.C. [3]	**61**	63	44
Donations to ITESM [3]	**215**	192	108
Other expenses with related parties	**319**	423	742

[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. 2,274, Ps. 3,542 and Ps. 3,436, for the years ended in 2019, 2018 and 2017, respectively.

[5] On May 22, 2018 the Company completed the acquisition of an additional 10% of non-controlling interest of Café del Pacífico S.A.P.I. de C.V. (Caffenio).

[6] Favorable resolution of Arbitration in Brazil on October 31, 2019, the arbitration tribunal in charge of the arbitration proceeding between Coca-Cola FEMSA and Cervejarias Kaiser Brasil, S.A., a subsidiary of Heineken, N.V. ("Kaiser"), issued an award confirming that the distribution agreement pursuant to which Coca-Cola FEMSA distribute Kaiser's portfolio in the country, including Heineken beer, shall continue in full force and effect until and including March 19, 2022.

Commitments with related parties

Related Party	Commitment	Conditions
Heineken Group	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.

On February 26, 2019, the Company through its subsidiary Cadena Comercial OXXO, S.A. de C.V. ("OXXO") signed an agreement with HEINEKEN Group ("Cervezas Cuauhtémoc Moctezuma, S.A. de C.V.") and both companies agreed to an extension of their existing commercial relationship with certain important changes. Under the terms of the agreement, signed in April 2019 and following a gradual process, OXXO started selling the beer brands of Grupo Modelo in certain regions of Mexico, covering the entire Mexican territory by the end of 2022.

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

	2019	2018	2017
Short-term employee benefits paid	**Ps. 2,163**	Ps. 1,885	Ps. 1,699
Postemployment benefits	**48**	37	48
Termination benefits	**411**	88	74
Share based payments	**610**	401	351

Note 16. 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 December 31, 2019 and for each of the three years ended on December 31, 2019, 2018 and 2017, respectively; the 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, 2019				
U.S. dollars	**Ps. 58,151**	**Ps. 452**	**Ps. 5,597**	**Ps. 57,075**
Euros	**877**	**–**	**363**	**21,122**
Other currencies	**620**	**1,593**	**58**	**1**
Total	**Ps. 59,648**	**Ps. 2,045**	**Ps. 6,018**	**Ps. 78,198**
As of December 31, 2018				
U.S. dollars	Ps. 69,281	Ps. 12,026	Ps. 4,625	Ps. 63,112
Euros	749	–	417	22,538
Other currencies	46	1,605	24	1
Total	Ps. 70,076	Ps. 13,631	Ps. 5,066	Ps. 85,651

Transactions	Revenues	Other Operating Revenues	Purchases of Raw Materials	Interest Expense	Consulting Fees	Asset Acquisitions	Other
For the year ended December 31, 2019							
U.S. dollars	**Ps. 5,487**	**Ps. 5,612**	**Ps. 17,941**	**Ps. 2,183**	**Ps. 718**	**Ps. 3,388**	**Ps. 4,348**
Euros	**–**	**–**	**538**	**397**	**33**	**5**	**2**
Other currencies	**1**	**982**	**–**	**–**	**2**	**–**	**132**
Total	**Ps. 5,488**	**Ps. 6,594**	**Ps. 18,479**	**Ps. 2,580**	**Ps. 753**	**Ps. 3,393**	**Ps. 4,482**
For the year ended December 31, 2018							
U.S. dollars	Ps. 7,228	Ps. 130	Ps. 21,460	Ps. 2,309	Ps. 752	Ps. 2,166	Ps. 2,676
Euros	–	–	63	434	20	–	1
Other currencies	–	9	–	–	2	–	–
Total	Ps. 7,228	Ps. 139	Ps. 21,523	Ps. 2,743	Ps. 774	Ps. 2,166	Ps. 2,677
For the year ended December 31, 2017							
U.S. dollars	Ps. 1,909	Ps. 1,677	Ps. 16,320	Ps. 2,534	Ps. 267	Ps. 272	Ps. 4,052
Euros	–	2	87	452	23	4	20
Other currencies	–	–	–	–	12	–	–
Total	Ps. 1,909	Ps. 1,679	Ps. 16,407	Ps. 2,986	Ps. 302	Ps. 276	Ps. 4,072

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, 2019	December 31, 2018	February 27, 2019
U.S. dollar	18.8452	19.6829	**19.0878**
Euro	21.1223	22.5383	**20.8550**

Note 17. 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.

17.1 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 Mexico:

Mexico	December 31, 2019	December 31, 2018	December 31, 2017
Financial:			
Discount rate used to calculate the defined benefit obligation	**7.50%**	9.40%	7.60%
Salary increase	**4.50%**	4.60%	4.50%
Future pension increases	**3.50%**	3.60%	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 years**	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 Bonds (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
2020	Ps. 767	Ps. 129	Ps. 20	**Ps. 916**
2021	332	111	21	**464**
2022	340	107	22	**469**
2023	414	106	22	**542**
2024	405	107	23	**535**
2025 to 2029	3,192	594	124	**3,910**

17.2 Balances of the liabilities for employee benefits

	December 31, 2019	December 31, 2018
Pension and Retirement Plans:		
Defined benefit obligation	**Ps. 7,193**	Ps. 6,189
Pension plan funds at fair value	**(2,678)**	(2,501)
Net defined benefit liability	**Ps. 4,515**	Ps. 3,688
Seniority Premiums:		
Defined benefit obligation	**Ps. 1,237**	Ps. 772
Seniority premium plan funds at fair value	**(127)**	(111)
Net defined benefit liability	**Ps. 1,110**	Ps. 661
Postretirement Medical Services:		
Defined benefit obligation	**Ps. 797**	Ps. 418
Medical services funds at fair value	**(75)**	(68)
Net defined benefit liability	**Ps. 722**	Ps. 350
Total Employee Benefits	**Ps. 6,347**	Ps. 4,699

17.3 Trust assets

Trust assets consist of fixed and variable return financial instruments recorded at fair value (Level 1), which are invested as follows:

	December 31, 2019	December 31, 2018
Fixed return:		
Traded securities	**9%**	19%
Bank instruments	**23%**	6%
Federal government instruments of the respective countries	**33%**	60%
Variable return:		
Publicly traded shares	**35%**	15%
	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, 2019	December 31, 2018
Debt:		
El Puerto de Liverpool, S.A.B. de C.V.	**Ps. 30**	Ps. 30
Grupo Industrial Bimbo, S.A.B. de C.V.	**31**	27
BBVA Bancomer, S.A de C.V.	**20**	19
Grupo Financiero Banorte, S.A.B. de C.V.	**8**	8
Grupo Financiero Scotiabank Inverlat, S.A. de C.V.	**10**	–
Grupo Televisa, S.A.B. de C.V.	**–**	45
Gentera, S.A.B. de C.V.	**–**	4
Equity:		
CEMEX, S.A.B. de C.V.	**12**	3
Alfa, S.A.B. de C.V.	**6**	–
El Puerto de Liverpool, S.A.B. de C.V.	**2**	3
Others	**3**	–
Grupo Televisa, S.A.B. de C.V.	**–**	1
Grupo Aeroportuario del Suereste, S.A.B. de C.V.	**–**	2

For the years ended December 31, 2019 and 2018, 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. There are no restrictions placed on the trustee's ability to sell those securities. As of December 31, 2019 and 2018, the plan assets did not include securities of the Company in portfolio funds.

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

	Income Statement				AOCI [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, 2019					
Pension and retirement plans	**Ps. 279**	**Ps. (45)**	**Ps. 2**	**Ps. 290**	**Ps. 1,608**
Seniority premiums	**139**	**161**	**–**	**57**	**162**
Postretirement medical services	**15**	**–**	**–**	**32**	**396**
Total	**Ps. 433**	**Ps. 116**	**Ps. 2**	**Ps. 379**	**Ps. 2,166**
December 31, 2018					
Pension and retirement plans	Ps. 318	Ps. –	Ps. (5)	Ps. 304	Ps. 668
Seniority premiums	125	–	(8)	49	(63)
Postretirement medical services	25	–	(1)	34	41
Total	Ps. 468	Ps. –	Ps. (14)	Ps. 387	Ps. 646
December 31, 2017					
Pension and retirement plans	Ps. 244	Ps. 10	Ps. (2)	Ps. 248	Ps. 1,061
Seniority premiums	106	–	(1)	41	46
Postretirement medical services	24	–	–	30	184
Total	Ps. 374	Ps. 10	Ps. (3)	Ps. 319	Ps. 1,291

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

For the years ended December 31, 2019, 2018 and 2017, labor costs of Ps. 433, Ps. 468 and Ps. 374 have been included in the consolidated income statements under the allocation of costs of goods sold, administrative expenses and selling expenses.

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

	December 31, 2019	December 31, 2018	December 31, 2017
Amount accumulated in other comprehensive income as of the beginning of the period, net of tax	**Ps. 475**	Ps. 892	Ps. 966
Actuarial (gains) arising from exchange rates	**(30)**	(21)	(2)
Remeasurements during the year, net of tax	**100**	221	295
Actuarial losses and (gains) arising from changes in financial assumptions	**1,071**	(617)	(367)
Effect on settlement	**8**	–	–
Amount accumulated in other comprehensive income as of the end of the period, net of tax	**Ps. 1,624**	Ps. 475	Ps. 892

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.

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

	December 31, 2019	December 31, 2018	December 31, 2017
Pension and Retirement Plans:			
Initial balance	**Ps. 6,189**	Ps. 7,370	Ps. 5,702
Current service cost	**279**	318	341
Past service (credit) cost	**(45)**	–	10
Interest expense	**530**	484	491
Settlement / Curtailment	**2**	(5)	(2)
Remeasurements of the net defined benefit obligation	**859**	(740)	263
Foreign exchange loss (gain)	**(69)**	(86)	(79)
Benefits paid	**(582)**	(450)	(550)
(Derecognition) acquisitions	**30**	(702)	1,194
Ending balance	**Ps. 7,193**	Ps. 6,189	Ps. 7,370
Seniority Premiums:			
Initial balance	**Ps. 772**	Ps. 783	Ps. 663
Current service cost	**139**	125	106
Past service cost	**161**	–	–
Interest expense	**68**	57	49
Settlement	**–**	(8)	(1)
Remeasurements of the net defined benefit obligation	**230**	(115)	28
Benefits paid	**(133)**	(77)	(68)
Acquisitions	**–**	7	6
Ending balance	**Ps. 1,237**	Ps. 772	Ps. 783
Postretirement Medical Services:			
Initial balance	**Ps. 418**	Ps. 524	Ps. 460
Current service cost	**15**	25	24
Interest expense	**38**	39	34
Curtailment / Settlement	**–**	(1)	–
Remeasurements of the net defined benefit obligation	**356**	(143)	32
Benefits paid	**(30)**	(26)	(26)
Ending balance	**Ps. 797**	Ps. 418	Ps. 524

17.6 Changes in the balance of plan assets

	December 31, 2019	December 31, 2018	December 31, 2017
Total Plan Assets:			
Initial balance	**Ps. 2,680**	Ps. 3,304	Ps. 2,378
Actual return on trust assets	**174**	47	213
Foreign exchange loss (gain)	**2**	(1)	86
Life annuities	**24**	35	65
Benefits paid	**–**	(1)	(136)
(Derecognition) acquisitions	**–**	(704)	698
Ending balance	**Ps. 2,880**	Ps. 2,680	Ps. 3,304

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.

17.7 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 1% in the assumptions on the net defined benefit liability associated with the Company's defined benefit plans. The sensitivity of this 1% on the significant actuarial assumptions is based on a projected long-term discount rates for Mexico and a yield curve projection of long-term Mexican government bonds-CETES:

+1%:	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**	**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. 180	Ps. 1	Ps. 237	Ps. 1,379
Seniority premiums	283	–	52	147
Postretirement medical services	6	–	29	335
Total	Ps. 469	Ps. 1	Ps. 318	Ps. 1,861
Expected salary increase				
Pension and retirement plans	Ps. 205	Ps. 2	Ps. 329	Ps. 1,493
Seniority premiums	320	–	62	178
Total	Ps. 525	Ps. 2	Ps. 391	Ps. 1,671
Assumed rate of increase in healthcare costs				
Postretirement medical services	Ps. 8	Ps. –	Ps. 40	Ps. 431

-1%:

Discount rate used to calculate the defined benefit obligation and the net interest on the net defined benefit liability	Current 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. 199	Ps. 2	Ps. 356	Ps. 1,528
Seniority premiums	317	–	63	1
Postretirement medical services	8	–	41	429
Total	Ps. 524	Ps. 2	Ps. 460	Ps. 1,958
Expected salary increase				
Pension and retirement plans	Ps. 178	Ps. 1	Ps. 267	Ps. 1,408
Seniority premiums	281	–	53	147
Total	Ps. 459	Ps. 1	Ps. 320	Ps. 1,555
Assumed rate of increase in healthcare costs				
Postretirement medical services	Ps. 6	Ps. –	Ps. 30	Ps. 333

(1) Amounts accumulated in other comprehensive income as of the end of the period.

17.8 Employee benefits expense

For the years ended December 31, 2019, 2018 and 2017, employee benefits expenses recognized in the consolidated income statements as cost of goods sold, administrative and selling expenses are as follows:

	2019	2018	2017
Wages and salaries	**Ps. 64,776**	Ps. 58,745	Ps. 51,874
Social security costs	**11,494**	10,486	9,800
Employee profit sharing	**1,205**	1,294	1,209
Post-employment benefits	**795**	842	700
Share-based payments	**200**	405	351
Termination benefits	**169**	132	159
	Ps. 78,639	Ps. 71,904	Ps. 64,093

Note 18. Bonus Programs

18.1 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 paid to the eligible employee on an annual basis and after withholding applicable taxes.

18.2 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, on existing grants recognized in 2016. 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 (purchase) 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, 2019, 2018 and 2017, the compensation expense recorded in the consolidated income statement amounted to Ps. 610, Ps. 401 and Ps. 351, 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, 2019 and 2018, the number of shares held by the trust associated with the Company's share-based payment plans are as follows:

	Number of Shares			
	FEMSA UBD		KOF UBL	
	2019	2018	2019	2018
Beginning balance	**2,278,460**	2,945,209	**697,226**	935,899
Shares acquired by the administrative trust to employees	**1,441,838**	913,846	**456,077**	262,909
Shares released from administrative trust to employees upon vesting	**(1,470,633)**	(1,580,595)	**(400,456)**	(501,582)
Ending balance	**2,249,665**	2,278,460	**752,847**	697,226

The fair value of the shares held by the trust as of the end of December 31, 2019 and 2018 was Ps. 488 and Ps. 468, respectively, based on quoted market prices of those dates.

Note 19. Bank Loans and Notes Payable

(in millions of Mexican pesos)	At December 31, [1] 2020	2021	2022	2023	2024	2025 and Thereafter	Carrying Value at December 31, 2019	Fair Value at December 31, 2019	Carrying Value at December 31, 2018 [1]
Short-term debt:									
Fixed rate debt:									
Colombian pesos									
Bank loans	Ps. 769	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	**Ps. 769**	**Ps. 769**	Ps. –
Interest rate	5.1%	–	–	–	–	–	**5.1%**	**–**	–
Argentine pesos									
Bank loans	126	–	–	–	–	–	**126**	**126**	157
Interest rate	63.5%	–	–	–	–	–	**63.5%**	**–**	36.8%
Chilean pesos									
Bank loans	977	–	–	–	–	–	**977**	**977**	594
Interest rate	2.6%	–	–	–	–	–	**2.6%**	**–**	3.2%
U.S. dollars									
Bank loans	1,038	–	–	–	–	–	**1,038**	**1,038**	–
Interest rate	2.6%	–	–	–	–	–	**2.6%**	**–**	–
Capital leases	–	–	–	–	–	–	**–**	**–**	10
Interest rate	–	–	–	–	–	–	**–**	**–**	3.3%
Uruguayan pesos									
Bank loans	63	–	–	–	–	–	**63**	**63**	771
Interest rate	11.6%	–	–	–	–	–	**11.6%**	**–**	10%
Variable rate debt:									
Mexican pesos									
Bank loans	100	–	–	–	–	–	**100**	**100**	450
Interest rate	7.9%	–	–	–	–	–	**7.9%**	**–**	9.2%
Colombian pesos									
Bank loans	431	–	–	–	–	–	**431**	**431**	454
Interest rate	4.7%	–	–	–	–	–	**4.7%**	**–**	5.6%
Argentine pesos									
Bank loans	32	–	–	–	–	–	**32**	**32**	–
Interest rate	54.3%	–	–	–	–	–	**54.3%**	**–**	–
Brazilian reals									
Bank loans	399	–	–	–	–	–	**399**	**399**	–
Interest rate	9.4%	–	–	–	–	–	**9.4%**	**–**	–
Total short-term debt	Ps. 3,935	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	**Ps. 3,935**	**Ps. 3,935**	Ps. 2,436

(in millions of Mexican pesos)	At December 31, [1] 2020	2021	2022	2023	2024	2025 and Thereafter	Carrying Value at December 31, 2019	Fair Value at December 31, 2019	Carrying Value at December 31, 2018 [1]
Long-term debt:									
Fixed rate debt:									
Euro									
Senior unsecured notes	Ps. –	Ps. –	Ps. –	Ps. 21,046	Ps. –	Ps. –	**Ps. 21,046**	**Ps. 22,181**	Ps. 22,439
Interest rate	–	–	–	1.7%	–	–	**1.7%**	**–**	1.7%
U.S. dollars									
Yankee bond	9,421	–	–	16,840	–	11,314	**37,575**	**41,231**	39,204
Interest rate	4.6%	–	–	3.9%	–	5.3%	**4.5%**	**–**	4.5%
U.S. dollars Promissory Note	–	–	–	–	–	–	**–**	**–**	4,652
Interest rate [1]	–	–	–	–	–	–	**–**	**–**	0.4%
Bank of NY (FEMSA USD 2023)	–	–	–	5,593	–	–	**5,593**	**5,715**	5,849
Interest rate [1]	–	–	–	2.9%	–	–	**2.9%**	**–**	2.9%
Bank of NY (FEMSA USD 2043)	–	–	–	–	–	12,943	**12,943**	**14,611**	13,504
Interest rate [1]	–	–	–	–	–	4.4%	**4.4%**	**–**	4.4%
Bank loans	439	437	437	436	436	–	**2,185**	**2,185**	–
Interest rate	3.6%	3.6%	3.6%	3.6%	3.6%	–	**3.6%**	**–**	–
Mexican pesos									
Domestic senior notes	–	2,499	–	7,496	–	8,489	**18,484**	**18,066**	18,481
Interest rate	–	8.3%	–	5.5%	–	7.9%	**6.9%**	**–**	6.9%
Bank loans	49	31	20	12	3	–	**115**	**116**	77
Interest rate	8.2%	9.3%	11.0%	11.0%	11.0%	–	**9.3%**	**–**	6.4%
Brazilian reais									
Bank loans	118	197	61	35	23	–	**434**	**434**	545
Interest rate	5.9%	8.8%	6.1%	6.4%	6.6%	–	**7.3%**	**–**	6.0%
Chilean pesos									
Capital leases	26	14	–	–	–	–	**40**	**39**	–
Interest rate	3.5%	3.2%	–	–	–	–	**3.4%**	**–**	–
Uruguayan pesos									
Bank loans	477	788	–	–	–	–	**1,265**	**1,265**	573
Interest rate	10.2%	9.9%	–	–	–	–	**5.8%**	**–**	10.2%
Subtotal	Ps.10,530	Ps. 3,966	Ps. 518	Ps. 51,458	Ps. 462	Ps. 32,746	**Ps. 99,680**	**Ps.105,842**	Ps. 105,405

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

(in millions of Mexican pesos)	2020	2021	2022	2023	2024	2025 and Thereafter	Carrying Value at December 31, 2019	Fair Value at December 31, 2019	Carrying Value at December 31, 2018 [1]
Variable rate debt:									
U.S. dollars									
Bank loans	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	**Ps. –**	**Ps. –**	Ps. 4,025
Interest rate [1]	–	–	–	–	–	–	**–**	**–**	3.3%
Mexican pesos									
Domestic senior notes	–	–	1,459	–	–	–	**1,459**	**1,385**	1,497
Interest rate [1]	–	–	8.0%	–	–	–	**8.0%**	**–**	8.6%
Bank loans	263	119	81	34	9	9,358	**9,864**	**9,864**	10,731
Interest rate [1]	8.5%	9.0%	8.9%	9.0%	9.5%	8.2%	**8.4%**	**–**	8.6%
Brazilian reais									
Bank loans	184	52	6	–	–	–	**242**	**242**	505
Interest rate	7.8%	7.8%	7.8%	–	–	–	**7.8%**	**–**	9.5%
Notes payable [2]	–	–	–	–	–	–	**–**	**–**	5
Interest rate	–	–	–	–	–	–	**–**	**–**	0.4%
Colombian pesos									
Bank loans	417	4	1	–	–	–	**422**	**422**	848
Interest rate	5.7%	6.8%	6.8%	–	–	–	**5.7%**	**–**	5.7%
Chilean pesos									
Bank loans	875	577	593	304	–	–	**2,349**	**2,348**	3,212
Interest rate	3.9%	4.0%	4.3%	4.1%	–	–	**4.1%**	**–**	4.1%
Subtotal	Ps. 1,739	Ps. 752	Ps. 2,140	Ps. 338	Ps. 9	Ps. 9,358	**Ps. 14,336**	**Ps. 14,261**	Ps. 20,823
Total long-term debt	Ps. 12,269	Ps. 4,718	Ps. 2,658	Ps. 51,796	Ps. 471	Ps. 42,104	**Ps. 114,016**	**Ps. 120,103**	Ps. 126,228
Current portion of long term debt							**(12,269)**		(11,238)
							Ps. 101,747		Ps. 114,990

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

[2] Promissory note denominated and payable in Brazilian reais; however, it is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar.

Hedging Derivative Financial Instruments [1]	2020	2021	2022	2023	2024	2025 and Thereafter	Total 2019	Total 2018
Cross currency swaps:								
U.S. dollars to Mexican pesos								
Fixed to variable [3]	Ps. –	Ps. –	Ps. –	Ps. 11,403	Ps. –	Ps. –	**Ps. 11,403**	Ps. 11,403
Interest pay rate	–	–	–	8.8%	–	–	**8.8%**	9.8%
Interest receive rate	–	–	–	4.0%	–	–	**4.0%**	4.0%
Fixed to fixed	9,423	–	–	2,963	–	6,596	**18,982**	19,768
Interest pay rate	9.0%	–	–	7.6%	–	9.7%	**9.0%**	9.1%
Interest receive rate	3.9%	–	–	3.9%	–	4.0%	**3.9%**	3.9%
Fixed to fixed [2]								
Interest pay rate	–	–	–	–	–	9.4%	**9.4%**	–
Interest receive rate	–	–	–	–	–	4.4%	**4.4%**	–
U.S. dollars to Brazilian reais								
Fixed to variable	–	–	–	–	–	–	**–**	4,652
Interest pay rate	–	–	–	–	–	–	**–**	4.7%
Interest receive rate	–	–	–	–	–	–	**–**	0.4%
Fixed to fixed	4,365	–	–	–	–	–	**4,365**	4,559
Interest pay rate	8.3%	–	–	–	–	–	**8.3%**	8.3%
Interest receive rate	2.9%	–	–	–	–	–	**2.9%**	2.9%
Variable to fixed	–	–	–	9,046	–	–	**9,046**	13,483
Interest pay rate	–	–	–	9.5%	–	–	**9.5%**	9.0%
Interest receive rate	–	–	–	3.9%	–	–	**3.9%**	3.6%
Chilean pesos								
Variable to fixed	163	–	–	–	–	–	**163**	364
Interest pay rate	6.9%	–	–	–	–	–	**6.9%**	6.9%
Interest receive rate	4.7%	–	–	–	–	–	**4.7%**	4.6%
Interest rate swap:								
Mexican pesos								
Variable to fixed rate:	–	405	414	1,367	2,167	–	**4,353**	2,847
Interest pay rate	–	7.6%	6.6%	5.8%	3.6%	–	**4.9%**	6.3%
Interest receive rate	–	2.8%	4.9%	4.1%	3.7%	–	**3.9%**	4.0%
Variable to fixed rate [3]:								
Interest pay rate	–	–	–	7.2%	–	–	**7.2%**	7.2%
Interest receive rate	–	–	–	8.8%	–	–	**8.8%**	9.8%

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

[2] Cross Currency swaps which covers U.S. dollars to Mexican pesos with a notional of Ps.8,869, that have a starting date in 2023; receiving a fixed rate of 4.4% and pay a variable rate of 9.4%.

[3] Interest rate swaps with a notional amount of Ps. 11,403 that receive a variable rate of 8.8% 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 8.8%.

For the years ended December 31, 2019, 2018 and 2017, the interest expense is comprised as follows:

	2019	2018	2017
Interest on debts and borrowings	**Ps. 6,434**	Ps. 6,760	Ps. 6,377
Capitalized interest	**–**	(5)	(10)
Finance charges for employee benefits	**382**	373	317
Derivative instruments	**2,300**	2,649	4,339
Finance operating charges	**243**	48	69
Finance charges payable for leases	**4,774**	–	–
	Ps. 14,133	Ps. 9,825	Ps. 11,092

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, 2019, a foreign exchange gain, 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. 991.

Coca-Cola FEMSA has the following 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%; ii) Ps. 7,500 (nominal amount) with a maturity date in 2023 and fixed interest rate of 5.46%; iii) Ps. 1,500 (nominal amount) with a maturity date 2022 and floating interest rate of TIIE + 0.25%; and iv) Ps. 8,500 (nominal amount) with a maturity date 2027 and fixed interest rate of 7.87%.

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. $900 with interest at a fixed rate of 3.88% and maturity date on November 26, 2023; iii) Senior notes of U.S. $600 with interest at a fixed rate of 5.25% and maturity date on November 26, 2043.

The mentioned bonds 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").

During 2018 Coca-Cola FEMSA had credit contracts in Mexican and Uruguayan peso with some banks for Ps. 10,100 and Ps. 1,344, respectively. On November 26, 2018, The Company paid the total balance of its bond in USD for USD 445 million and the total balance of Mexican debt for Ps. 10,100.

During 2019 Coca-Cola FEMSA celebrated bank loans in Mexico for an amount of Ps. 9,400 at an interest rate of 8.39% and 7.91%, such loans were used to settled bank loans denominated in USD and for general corporate purposes. Additionally, the Company obtained during 2019 bank loans in Uruguay, Colombia and Argentina for an amount of Ps. 1,670.

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.

19.1 Reconciliation of liabilities arising from financing activities

	Carrying Value at January 1, 2019	Cash Flows	Non-Cash Flows: Acquisition	Non-Cash Flows: New Leases	Non-Cash Flows: Foreign Exchange Income (Loss)	Non-Cash Flows: Others	Carrying Value at December 31, 2019
Bank loans	Ps. 22,944	Ps. (2,999)	Ps. 1,917	Ps. –	Ps. (397)	Ps. (658)	Ps. 20,807
Notes payable	105,720	(5,022)	–	–	(1,244)	(2,310)	97,144
Total liabilities from financing activities	Ps. 128,664	Ps. (8,021)	Ps. 1,917	Ps. –	Ps. (1,641)	Ps. (2,968)	Ps. 117,951
Financial leases	50,220	(8,848)	2,187	7,490	(10)	3,640	54,679
Total financing activities	Ps. 178,884	Ps. (16,869)	Ps. 4,104	Ps. 7,490	Ps. (1,651)	Ps. 672	Ps. 172,630

	Carrying Value at December 31, 2017	Cash Flows	Non-Cash Flows: Acquisition	Non-Cash Flows: New Leases	Non-Cash Flows: Foreign Exchange Movement	Non-Cash Flows: Others	Carrying Value at December 31, 2018
Bank loans	Ps. 13,669	Ps. 8,313	Ps. 1,147	Ps. –	Ps. 417	Ps. (602)	Ps. 22,944
Notes payable	117,551	(9,314)	–	–	(769)	(1,840)	105,628
Lease liabilities	128	(26)	–	–	(10)	–	92
Total liabilities from financing activities	Ps. 131,348	Ps. (1,027)	Ps. 1,147	Ps. –	Ps. (362)	Ps. (2,442)	Ps. 128,664

	Carrying Value at December 31, 2016	Cash Flows	Non-Cash Flows: Acquisition	Non-Cash Flows: New Leases	Non-Cash Flows: Foreign Exchange Movement	Non-Cash Flows: Others	Carrying Value at December 31, 2017
Bank loans	Ps. 14,497	Ps. (949)	Ps. –	Ps. –	Ps. 190	Ps. (69)	Ps. 13,669
Notes payable	123,859	(3,574)	–	–	4,954	(7,688)	117,551
Lease liabilities	892	(8)	–	–	–	(756)	128
Total liabilities from financing activities	Ps. 139,248	Ps. (4,531)	Ps. –	Ps. –	Ps. 5,144	Ps. (8,513)	Ps. 131,348

Note 20. Other Income and Expenses

	2019	2018	2017
Gain on sale of shares	Ps. –	Ps. –	Ps. 123
Gain on sale of Heineken Group shares (see Note 4.2)	–	–	29,989
Gain on sale of other assets	–	344	–
Gain on sale of long-lived assets	–	174	210
Sale of waste material	21	13	3
Insurance rebates	–	10	6
Foreign exchange gain	26	123	–
Recoveries of prior years [1]	896	–	–
Others	70	9	1,620
Other income	Ps. 1,013	Ps. 673	Ps. 31,951
Contingencies associated with prior acquisitions or disposals	Ps. 149	Ps. 138	Ps. 39
Loss on sale of property, plant and equipment	67	–	–
Loss on sale of other assets	–	–	148
Recoveries of prior years	44	116	35
Impairment of long-lived assets [2]	1,018	432	2,063
Disposal of long-lived assets [3]	861	518	451
Suppliers provisions	–	–	398
Foreign exchange losses related to operating activities	–	–	2,524
Contingencies	589	518	636
Severance payments [4]	1,207	264	243
Donations	489	528	242
Legal fees and other expenses from past acquisitions	17	149	612
Venezuela deconsolidation effect	–	–	26,123
Other	464	284	352
Other expenses	Ps. 4,905	Ps. 2,947	Ps. 33,866

[1] Following a favorable decision from Brazilian tax authorities received during 2019, Coca-Cola FEMSA has been entitled to reclaim indirect tax payments made in prior years in Brazil, resulting in the recognition of a tax credit and a positive effect in the operating revenues and other income captions of the condensed consolidated income statements. See Note 25.1.1.

[2] Includes impairment loss related to Compañía Panameña de Bebibas, S.A.P.I. de C.V., for an amount of Ps. 948 and Ps. 432 million in 2019 and 2018, respectively (see Note 10), and impairment loss in Venezuela of Ps. 2,053 in 2017 (see Note 3.3).

[3] Charges related to fixed assets retirement from ordinary operations and other long-lived assets.

[4] During 2019, the Company incurred restructuring costs related to some of their operations as part of an efficiency program.

Note 21. Financial Instruments

Fair Value of Financial Instruments

The Company's financial assets and liabilities that are measured at fair value are based on 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, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Level 1	Level 2	Level 1	Level 2
Financial instrument (current asset)	**91**	**917**	–	735
Financial instrument (non-current asset)	**2,880**	**21,570**	2,680	10,752
Financial instrument (current liability)	**47**	**801**	236	147
Financial instrument (non-current liability)	**–**	**1,672**	–	1,262

21.1 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, 2018 and 2017, which is considered to be level 1 in the fair value hierarchy.

	2019	2018
Carrying value	**Ps. 117,951**	Ps. 128,664
Fair value	**124,038**	128,741

21.2 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, 2019, the Company has the following outstanding interest rate swap agreements:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2019	Fair Value Asset December 31, 2019
2020	**Ps. 4,365**	**Ps. (142)**	**Ps. –**
2021	**405**	**(24)**	**–**
2022	**414**	**(20)**	**–**
2023	**12,770**	**(79)**	**245**
2024	**3**	**–**	**–**

At December 31, 2018, the Company has the following outstanding interest rate swap agreements:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2018	Fair Value Asset December 31, 2018
2019	Ps. 4,032	Ps. (49)	Ps. –
2020	4,559	(112)	–
2021	4,548	(151)	–
2022	617	(18)	–
2023	13,101	(49)	1,143

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

21.3 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, 2019, the Company had the following outstanding forward agreements to purchase foreign currency:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2019	Fair Value Asset December 31, 2019
2020	**Ps. 8,447**	**Ps. (292)**	**Ps. 34**
2021	**215**	**–**	**27**
2022	**52**	**–**	**5**

At December 31, 2018, the Company had the following outstanding forward agreements to purchase foreign currency:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2018	Fair Value Asset December 31, 2018
2019	Ps. 5,808	Ps. (65)	Ps. 133

21.4 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, 2019, the Company paid a net premium of Ps. 43 million for the following outstanding collar options to purchase foreign currency:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2019	Fair Value Asset December 31, 2019
2020	Ps. 107	Ps. –	Ps. 2

At December 31, 2018, the Company paid a net premium of Ps. 43 million for the following outstanding collar options to purchase foreign currency:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2018	Fair Value Asset December 31, 2018
2019	Ps. 1,734	Ps. (33)	Ps. 57

21.5 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, 2019, the Company had the following outstanding cross – currency swap agreements:

Maturity Date	Notional Amount	Fair Value Liability 2019	Fair Value Asset December 31, 2019
2020	Ps. 17,252	Ps. (307)	Ps. 883
2021	702	–	49
2022	375	–	3
2023	23,466	(594)	7,122
2024	1,788	(53)	–
2026	772	(63)	–
2027	6,596	(843)	–
2029	1,371	–	121
2043	8,869	–	576

At December 31, 2018, the Company had the following outstanding cross – currency swap agreements:

Maturity Date	Notional Amount	Fair Value Liability 2018	Fair Value Asset December 31, 2018
2019	Ps. 4,738	Ps. –	Ps. 502
2020	18,126	(378)	1,015
2021	4,774	–	615
2022	396	(7)	–
2023	23,948	(396)	7,818
2026	813	(154)	–
2027	6,889	(42)	202

21.6 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 also in cost of goods sold.

At December 31, 2019, Coca-Cola FEMSA had the following sugar price contracts:

Maturity Date	Notional Amount	Fair Value Asset December 31, 2019
2020	**Ps. 1,554**	**Ps. 53**
2021	**98**	**15**

At December 31, 2018, Coca-Cola FEMSA had the following sugar price contracts:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2018
2019	Ps. 1,223	Ps. (88)

At December 31, 2019, Coca-Cola FEMSA had the following aluminum price contracts:

Maturity Date	Notional Amount	Fair Value Asset December 31, 2019
2020	**Ps. 394**	**Ps. 4**

At December 31, 2018, Coca-Cola FEMSA had the following aluminum price contracts:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2018
2019	Ps. 265	Ps. (17)

At December 31, 2019, Coca-Cola FEMSA had the following PX+MEG (resine):

Maturity Date	Notional Amount	Fair Value Liability December 31, 2019
2020	**Ps. 320**	**Ps. (28)**

At December 31, 2018, Coca-Cola FEMSA had the following PX+MEG (resine):

Maturity Date	Notional Amount	Fair Value Liability December 31, 2018
2019	Ps. 1,303	Ps. (131)

21.7 Treasury Lock contracts

The Company has contracted a number of treasury locks to reduce its exposure to interest rate fluctuations associated with its USD debt. These treasury locks, for accounting purposes are recorded as Cash Flow Hedges and the interest rate variation is recorded in the consolidated balance sheet as "cumulative other comprehensive income".

At December 31, 2019, the Company had the following outstanding treasury locks agreements:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2019	Fair Value Asset December 31, 2019
2020	**Ps. 10,365**	**Ps. –**	**Ps. 102**

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

On December 6, 2016, as part of the purchase price paid for the Coca-Cola FEMSA's acquisition of Vonpar, Spal issued and delivered a three-year promissory note to the sellers, for a total amount of 1,166 million Brazilian reais which was partially offset on November 14, 2018, as a result of the occurrence of certain contingencies for which the sellers agreed to indemnify Coca-Cola FEMSA. The promissory note beards interest at an annual rate of 0.375% and was denominated and payable in Brazilian reais, but linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. On December 6, 2019 the promissory note matured and was paid in full in cash for the outstanding amount of 1,002 million Brazilian reais, which was at the time equivalent to U.S. $236 million (Ps. 4,670 million as of December 31, 2019).

21.9 Net effects of expired contracts that met hedging criteria

	Impact in Consolidated Income Statement	2019	2018	2017
Cross currency swap [1]	Interest expense	**Ps. 199**	Ps. 157	Ps. 2,102
Cross currency swap [1]	Foreign exchange	**480**	642	–
Interest rate swaps	Interest expense	**515**	–	–
Forward agreements to purchase foreign currency	Foreign exchange	**(116)**	(87)	(40)
Commodity price contracts	Cost of goods sold	**(391)**	(258)	(6)
Options to purchase foreign currency	Cost of goods sold	**(63)**	(8)	–
Forward agreements to purchase foreign currency	Cost of goods sold	**(163)**	240	89

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

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

Derivative	Impact in Consolidated Income Statement		2019		2018		2017
Forward agreements to purchase foreign currency	Market value gain (loss) on financial statements	**Ps.**	**4**	Ps.	(12)	Ps.	12
Cross currency swaps	Market value (loss) gain on financial statements		**(293)**		(116)		337

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

Type of Derivatives	Impact in Consolidated Income Statement		2019		2018		2017
Cross-currency swaps	Market value loss on financial instruments	**Ps.**	**(293)**	Ps.	(186)	Ps.	(104)
Embedded derivatives	Market value gain on financial instruments		**4**		—		1

21.12 Risk management

The Company has exposure to the following financial risks:

- Market risk;
- Interest rate risk;
- Liquidity risk; and
- Credit risk.

The Company determines the existence of an economic relationship between the hedging instruments and the hedged item based on the currency, amount and timing of their respective cash flows. The Company evaluates whether the derivative designated in each hedging relationship is expected to be effective and that it has been effective to offset changes in the cash flows of the hedged item using the hypothetical derivative method.

In these hedging relationships, the main sources of inefficiency are:

- The effect of the credit risk of the counterparty and the Company on the fair value of foreign currency forward contracts which is not reflected in the change in the fair value of the hedged cash flows attributable to change in the types of change; and
- Changes in the periodicity of covered.

21.12.1 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	
2019			
FEMSA [1]	**+9% MXN/EUR**	**Ps.**	**57**
	-9% MXN/EUR		**(57)**
	+13% BRL/USD		**202**
	-13% BRL/USD		**(202)**
Coca-Cola FEMSA	**+9% MXN/USD**		**739**
	-9% MXN/USD		**(739)**
	+13% BRL/USD		**155**
	-13% BRL/USD		**(155)**
	+5% UYU/USD		**23**
	-5% UYU/USD		**(23)**
	+10% COP/USD		**54**
	-10% COP/USD		**(54)**
	+25% ARS/USD		**88**
	-25% ARS/USD		**(88)**
2018			
FEMSA [1]	+12% MXN/EUR	Ps.	116
	-12% MXN/EUR		(116)
Coca-Cola FEMSA	+13% MXN/USD		668
	-13% MXN/USD		(668)
	+16% BRL/USD		413
	-16% BRL/USD		(413)
	+8% UYU/USD		46
	-8% UYU/USD		(46)
	+12% COP/USD		2
	-12% COP/USD		(2)
	+27% ARS/USD		522
	-27% ARS/USD		(522)
2017			
FEMSA [1]	+13% MXN/EUR	Ps.	141
	-13% MXN/EUR		(141)
	+8% CLP/USD		2
	-8% CLP/USD		(2)
Coca-Cola FEMSA	+12% MXN/USD		626
	-12% MXN/USD		(626)
	+14% BRL/USD		234
	-14% BRL/USD		(234)
	+9% COP/USD		73
	-9% COP/USD		(73)
	+10% ARS/USD		29
	-10% ARS/USD		(29)

[1] Does not include Coca-Cola FEMSA.

Cross Currency Swaps [1] [2]	Change in Exchange Rate	Effect on Equity	Effect on Profit or Loss
2019			
FEMSA [3]	**+11% CLP/USD**	**Ps. –**	**Ps. 546**
	-11% CLP/USD	**–**	**(546)**
	+9% MXN/USD	**–**	**1,805**
	-9% MXN/USD	**–**	**(1,805)**
	+10% COP/USD	**–**	**286**
	-10% COP/USD	**–**	**(286)**
	+13% MXN/BRL	**–**	**177**
	-13% MXN/BRL	**–**	**(177)**
Coca-Cola FEMSA	**+9% MXN/USD**	**2,315**	**–**
	-9% MXN/USD	**(2,315)**	**–**
	+13% BRL/USD	**645**	**–**
	-13% BRL/USD	**(645)**	**–**
2018			
FEMSA [3]	+10% CLP/USD	Ps. –	Ps. 368
	-10% CLP/USD	–	(368)
	+13% MXN/USD	–	2,706
	-13% MXN/USD	–	(2,706)
	+12% COP/USD	–	283
	-12% COP/USD	–	(283)
	+15% MXN/BRL	–	27
	-15% MXN/BRL	–	(27)
Coca-Cola FEMSA	+13% MXN/USD	3,130	–
	-13% MXN/USD	(3,130)	–
	+16% BRL/USD	9,068	–
	-16% BRL/USD	(9,068)	–
2017			
FEMSA [3]	+8% CLP/USD	Ps. –	Ps. 373
	-8% CLP/USD	–	(373)
	+12% MXN/USD	–	3,651
	-12% MXN/USD	–	(3,651)
	+9% COP/USD	–	304
	-9% COP/USD	–	(304)
	+14% MXN/BRL	–	23
	-14% MXN/BRL	–	(23)
Coca-Cola FEMSA	+12% MXN/USD	3,540	–
	-12% MXN/USD	(3,540)	–
	+14% BRL/USD	7,483	–
	-14% BRL/USD	(7,483)	–

[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.

Net Cash in Foreign Currency [1]	Change in Exchange Rate	Effect on Profit or Loss
2019		
FEMSA [2]	**+9% EUR/ +9 % USD**	**Ps. 3,833**
	-9% EUR/ -9 % USD	**(3,833)**
Coca-Cola FEMSA	**+8% USD**	**940**
	-8% USD	**(940)**
2018		
FEMSA [2]	+12% EUR/ +13 % USD	Ps. 8,596
	-12% EUR/ -13 % USD	(8,596)
Coca-Cola FEMSA	+13% USD	1,868
	-13% USD	(1,868)
2017		
FEMSA [2]	+13% EUR/+12% USD	Ps. 8,077
	-13% EUR/ -12% USD	(8,077)
Coca-Cola FEMSA	+12% USD	553
	-12% USD	(553)

[1] The sensitivity analysis effects include all subsidiaries of the Company.
[2] Does not include Coca-Cola FEMSA.

Commodity Price Contracts [1]	Change in U.S.$ Rate	Effect on Equity
2019		
Coca-Cola FEMSA	**Sugar – 24%**	**Ps. (255)**
	Aluminum – 15%	**Ps. (1,164)**
2018		
Coca-Cola FEMSA	Sugar – 30%	Ps. (341)
	Aluminum – 22%	Ps. (55)
2017		
Coca-Cola FEMSA	Sugar – 30%	Ps. (32)

[1] Effects on commodity price contracts are only in Coca-Cola FEMSA.

21.12.2 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
2019		
FEMSA [2]	**(100 Bps.)**	**Ps. (432)**
Coca-Cola FEMSA	**(100 Bps.)**	**(37)**
2018		
FEMSA [2]	(100 Bps.)	Ps. (359)
Coca-Cola FEMSA	(100 Bps.)	(1,976)
2017		
FEMSA [2]	(100 Bps.)	Ps. (452)
Coca-Cola FEMSA	(100 Bps.)	(234)

[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	2019	2018	2017
Change in interest rate	**+100 Bps.**	+100 Bps.	+100 Bps.
Effect on profit loss	**Ps. (50)**	Ps. 145	Ps. (251)

21.12.3 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, 2019 and 2018, 64.3% and 68.2%, 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 – Proximity, FEMSA Comercio – Health and FEMSA Comercio – Fuel Divisions 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 practicable to remit cash generated in local operations to fund cash 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 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, 2019, see Note 19. 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, 2019. 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, 2019.

	2020	2021	2022	2023	2024	2025 AND THEREAFTER
Non-derivative financial liabilities:						
Notes and bonds	Ps. 10,598	Ps. 1,130	Ps. 1,154	Ps. 29,446	Ps. 600	Ps. 44,328
Loans from banks	5,745	809	902	542	4,711	–
IFRS 16 lease obligation	244	153	82	35	13	–
Derivative financial liabilities	1,291	1,337	1,192	(1,011)	671	(7,314)

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

21.12.4 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, 2019 and 2018 is the carrying amounts, see Note 7.

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, 2019, 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.

21.13 Cash flows hedges

As of December 31, 2019, the Company's financial instruments used to hedge its exposure to foreign exchange rates and interest rates as follows:

	Maturity		
	1-6 months	6-12 months	More than 12
Foreign exchange currency risk			
Foreign exchange currency forward contracts			
Net exposure	Ps. 4,373	Ps. 2,086	Ps. –
Average exchange rate MXN/USD	20.00	20.20	–
Net exposure	746	378	267
Average exchange rate BRL/USD	4.05	4.19	4.44
Net exposure	220	85	–
Average exchange rate COP/USD	3,491	3,460	–
Net exposure	137	–	–
Average exchange rate ARS/USD	79.23	–	–
Net exposure	335	87	–
Average exchange rate URY/USD	37.55	40.03	–
Foreign exchange currency option contracts			
Net exposure	107	–	–
Average exchange rate COP/USD	3,252	–	–
Foreign exchange currency swap contracts			
Net exposure	9,423	–	18,428
Average exchange rate MXN/USD	19.54	–	15.93
Net exposure	–	4,365	9,140
Average exchange rate BRL/USD	–	3.41	4.00
Net exposure	–	84	1,195
Average exchange rate BRL/MXN	–	0.21	0.21
Net exposure	–	–	2,403
Average exchange rate COP/USD	–	–	3,075
Net exposure	–	3,007	1,371
Average exchange rate CLP/USD	–	696.02	677.00
Interest rate risk			
Interest rate swaps			
Net exposure	–	4,365	–
Interest rate average BRL	–	8.34%	–
Net exposure	–	–	11,403
Interest rate average MXN	–	–	7.17%
Net exposure	–	–	2,197
Average exchange rate CLP	–	–	6.26%
Commodities risk			
Aluminum	276	118	–
Average price (USD/Ton)	1,796	1,812	–
Sugar	1,192	361	98
Average price (USD cent/Lb)	13.09	12.73	13.45
PX+MEG	160	160	–
Average price (USD /Ton)	848	848	–

As of December 31, 2018, the Company's financial instruments used to hedge its exposure to foreign exchange rates and interest rates as follows:

	Maturity		
	1-6 months	6-12 months	More than 12
Foreign exchange currency risk			
Foreign exchange currency forward contracts			
Net exposure	Ps. 1,022	Ps. –	Ps. –
Average exchange rate MXN/EUR	23.78	–	–
Net exposure	3,484	683	–
Average exchange rate MXN/USD	20.19	20.75	–
Net exposure	805	337	–
Average exchange rate BRL/USD	3.75	3.83	–
Net exposure	429	63	–
Average exchange rate COP/USD	2,851	2,976	–
Net exposure	339	–	–
Average exchange rate ARS/USD	43.31	–	–
Net exposure	196	159	–
Average exchange rate URY/USD	32.9	33.97	–
Foreign exchange currency swap contracts			
Net exposure	–	–	31,172
Average exchange rate MXN/USD	–	–	16.08
Net exposure	–	4,652	18,042
Average exchange rate BRL/USD	–	3.36	3.59
Net exposure	–	86	79
Average exchange rate BRL/MXN	–	0.18	0.19
Net exposure	–	–	1,928
Average exchange rate COP/USD	–	–	3,043.59
Net exposure	–	–	3,725
Average exchange rate CLP/USD	–	–	693.10
Interest rate risk			
Interest rate swaps			
Net exposure	–	4,013	8,594
Interest rate average BRL	–	6.29%	8.15%
Net exposure	–	–	11,403
Interest rate average MXN	–	–	7.17%
Net exposure	19	–	2,828
Average exchange rate CLP	6.45%	–	5.56%
Commodities risk			
Aluminum	189	75,250	–
Average price (USD/Ton)	1,975	1,986	–
Sugar	725	498	–
Average price (USD cent/Lb)	12.86	13.11	–
PX+MEG	739	565	–
Average price (USD /Ton)	1,077	1,040	–

As of December 31, 2019, the Company does not have any cash flows hedge exposures.

As of December 31, 2018, the Company maintained the following cash flows hedge exposures:

	Cash flow hedge reserve	Cash flow hedge costs	Remained balances of cash flow hedge reserve from which hedging accounting is not applied
Foreign exchange currency risk			
Purchase of stock	1	22	–

As of December 31, 2017, the Company maintained the following cash flows hedge exposures:

	Cash flow hedge reserve	Cash flow hedge costs	Remained balances of cash flow hedge reserve from which hedging accounting is not applied
Foreign exchange currency risk			
Purchase of stock	–	11	–

As of December 31, 2019, a reconciliation per category of equity components and an analysis of OCI components, net of tax; generated by the cash flow hedges were as follows:

	Hedging reserve	Costs of hedging reserve
Balances at beginning of the period	Ps. 812	Ps. 12
Cash flows hedges		
Fair value changes:		
Foreign exchange currency risk – Purchase of stock	(333)	(12)
Foreign exchange currency risk – Other stock	(6,202)	–
Interest rate risk	5,327	–
The amounts included in non-financial costs:		
Taxes due to changes in reserves during the period	363	–
Balances at the end of the period	Ps. (33)	Ps. –

Note 22. Non-Controlling Interest in Consolidated Subsidiaries

An analysis of FEMSA's non-controlling interest in its consolidated subsidiaries for the years ended December 31, 2019 and 2018 is as follows:

	December 31, 2019	December 31, 2018
Coca-Cola FEMSA	**Ps. 72,649**	Ps. 73,776
Other	**1,113**	4,713
	Ps. 73,762	Ps. 78,489

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

	2019	2018	2017
Balance at beginning of the period	**Ps. 78,489**	Ps. 86,621	Ps. 74,266
Net income of non-controlling interest	**7,349**	9,089	(5,202)
Other comprehensive income (loss):	**(4,552)**	(4,080)	7,240
Exchange differences on translation of foreign operation	**(3,833)**	(4,016)	7,349
Remeasurements of the net defined benefits liability	**(271)**	155	30
Valuation of the effective portion of derivative financial instruments	**(448)**	(219)	(139)
Dividends	**(3,945)**	(3,713)	(3,622)
Share based payment	**(12)**	31	50
Acquisition of Socofar non-controlling interest	**(3,530)**	–	–
Other acquisitions and remeasurements	**32**	413	(50)
(Derecognition) contribution from non-controlling interest	**–**	(11,140)	11,072
Accounting standard adoption effects ("IFRIC 23 and IFRS 9")	**(69)**	(150)	–
Adoption of IAS 29 for Argentina	**–**	1,418	–
Capitalization of issued shares to former owners of Vonpar in Coca-Cola FEMSA	**–**	–	2,867
Balance at end of the period	**Ps. 73,762**	Ps. 78,489	Ps. 86,621

Non-controlling interest's accumulated other comprehensive income is comprised as follows:

	December 31, 2019	December 31, 2018
Exchange differences on translation foreign operation	**Ps. (699)**	Ps. 3,134
Remeasurements of the net defined benefits liability	**(390)**	(119)
Valuation of the effective portion of derivative financial instruments	**(611)**	(163)
Accumulated other comprehensive income	**Ps. (1,700)**	Ps. 2,852

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, 2019	December 31, 2018
Total current assets	**Ps. 56,796**	Ps. 57,490
Total non-current assets	**201,043**	206,297
Total current liabilities	**51,010**	45,524
Total non-current liabilities	**77,144**	86,513
Total revenue	**Ps. 194,471**	Ps. 182,342
Consolidated net (loss) income for continuing operations	**12,630**	11,704
Consolidated net income from discontinued operations	**–**	3,366
Consolidated comprehensive income for continuing operations	**Ps. 5,489**	Ps. 3,563
Consolidated comprehensive income from discontinued operations	**–**	3,056
Net cash flow generated from operating activities for continuing operations	**31,289**	27,581
Net cash flow generated from operating activities from discontinued operations	**–**	1,308
Net cash flow used in investing activities for continuing operations	**(10,744)**	(8,291)
Net cash flow used in investing activities from discontinued operations	**–**	(962)
Net cash flow used in financing activities for continuing operations	**(22,794)**	(14,235)
Net cash flow used in financing activities from discontinued operations	**–**	(37)

22.1 Options embedded from past acquisitions

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.

On December 13, 2019, the former controlling shareholders of Socofar exercised their put option to sell the remaining 40% non-controlling interest to FEMSA Comercio – Health Division at the fair value of the interest. As of December 31, 2019, the Company recognized a loss in the consolidated statements of changes in equity and Socofar has been included 100% in the consolidated statements of financial position.

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.

Note 23. Equity

23.1 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, 2019 and 2018, the common 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, 2019 and 2018, 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 common 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, 2019 and 2018, 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 ("CUCA") 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. 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, 2019 amounted to Ps. 225,589. Dividends distributed to its stockholders who are individuals and foreign residents must withhold 10% for LISR 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 FEMSA held on March 16, 2017, the shareholders approved a dividend of Ps. 8,636 that was paid 50% on May 5, 2017 and other 50% on November 3, 2017; and a reserve for share repurchase of a maximum of Ps. 7,000. As of December 31, 2017, the Company has not repurchased shares. Treasury shares resulted from share-based payment bonus plan are disclosed in Note 18.

At an ordinary shareholders' meeting of Coca-Cola FEMSA held on March 16, 2017, the shareholders approved a dividend of Ps. 6,991 that was paid 50% on May 3, 2017 and other 50% on November 1, 2017. The corresponding payment to the non-controlling interest was Ps. 3,622.

At an ordinary shareholders' meeting of FEMSA held on March 16, 2018, the shareholders approved a dividend of Ps. 9,220 that was paid 50% on May 4, 2018 and other 50% on November 6, 2018; and a reserve for share repurchase of a maximum of Ps. 7,000. As of December 31, 2018, the Company has not repurchased shares. Treasury shares resulted from share-based payment bonus plan are disclosed in Note 18.

At an ordinary shareholders' meeting of Coca-Cola FEMSA held on March 9, 2018, the shareholders approved a dividend of Ps. 7,038 that was paid 50% on May 3, 2018 and other 50% on November 1, 2018. The corresponding payment to the non-controlling interest was Ps. 3,713.

At an ordinary shareholders' meeting of FEMSA held on March 22, 2019, the shareholders approved a dividend of Ps. 9,692 that was paid 50% on May 7, 2019 and other 50% on November 5, 2019; and a reserve for share repurchase of a maximum of Ps. 7,000. As of December 31, 2019, the Company has not repurchased shares. Treasury shares resulted from share-based payment bonus plan are disclosed in Note 18.

At an ordinary shareholders' meeting of Coca-Cola FEMSA held on March 14, 2019, the shareholders approved a dividend of Ps. 7,437 that was paid 50% on May 3, 2019 and other 50% on November 1, 2019. The corresponding payment to the non-controlling interest was Ps. 3,925.

For the years ended December 31, 2019, 2018 and 2017 the dividends declared and paid by the Company and Coca-Cola FEMSA were as follows:

	2019	2018	2017
FEMSA	**Ps. 9,692**	Ps. 9,220	Ps. 8,636
Coca-Cola FEMSA (100% of dividend)	**7,437**	7,038	6,991

For the years ended December 31, 2019 and 2018 the dividends declared and paid per share by the Company are as follows:

Series of Shares	2019	2018
"B"	**Ps. 0.48333**	Ps. 0.45980
"D"	**0.60417**	0.57480

23.2 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, 2019 and 2018.

The Company is not subject to any externally imposed capital requirements, other than the legal reserve (see Note 23.1) and debt covenants (see Note 19).

The Company´s Finance, Planning and the Corporate Practices Committees 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 24. 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 adjusted for the effects of dilutive potential shares (originated by the Company's share-based payment program).

	2019		2018		2017	
	Per Series "B" Shares	Per Series "D" Shares	Per Series "B" Shares	Per Series "D" Shares	Per Series "B" Shares	Per Series "D" Shares
(in millions of shares)						
Weighted average number of shares for basic earnings per share	**9,244.16**	**8,635.65**	9,243.81	8,634.26	9,243.14	8,631.57
Effect of dilution associated with non-vested shares for share based payment plans	**2.26**	**9.06**	2.61	10.45	3.29	13.14
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 23.1)	**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
Basic earnings per share from continuing operations	**1.03**	**1.29**	1.13	1.41	2.04	2.55
Basic earnings per share from discontinued operations	**–**	**–**	0.07	0.09	0.08	0.10
Diluted earnings per share from continuing operations	**1.03**	**1.29**	1.13	1.41	2.04	2.55
Diluted earnings per share from discontinued operations	**–**	**–**	0.07	0.09	0.08	0.10
Allocation of earnings, weighted	**46.11%**	**53.89%**	46.11%	53.89%	46.11%	53.89%
Net controlling interest income allocated from continuing operations	**Ps. 9,545**	**Ps. 11,154**	Ps. 10,403	Ps. 12,157	Ps. 18,842	Ps. 22,021
Net controlling interest income allocated from discontinued operations	**Ps. –**	**Ps. –**	Ps. 660	Ps. 770	Ps. 713	Ps. 832

Note 25. Taxes

25.1 Recoverable taxes

Recoverable taxes are mainly integrated by higher provisional payments of income tax during 2019 in comparison to prior year, which will be compensated in future years. The operations in Guatemala, Panama, Nicaragua and Colombia are subject to a minimum tax, which is based primary on a percentage of assets and gross margin, except in the case of Panama and Nicaragua any payments are recoverable in future years, under certain conditions.

25.1.1 Exclusion of the State VAT (ICMS) on the Social Contribution on gross revenue (PIS / COFINS) calculate basis

On March 15, 2017 the Brazilian Federal Supreme Court (STF) ruled that the inclusion of the state VAT (ICMS) on the social contributions in gross revenue (PIS and COFINS) taxable basis is unconstitutional; subsequently the General Attorney of the National Treasury in Brazil filled a motion to clarify the effects of this decision, the result of such motions were claimed by the Company through the filing of several legal actions covering different periods for which the PIS COFINS was paid on the aforementioned unconstitutional taxable basis. The net favorable effects of each case are to be recorded at the time all formalities and legal procedures are finalized and the asset become virtually certain.

During 2019, the Company received favorable decisions on some legal actions, completed certain required administrative matters and the recoverable taxes were recorded.

As of December 31, 2019 and 2018 the amount of recoverable taxes in Brazil including PIS and COFINS is Ps. 4,223 and Ps. 2,361.

25.2 Tax Reform

On January 1, 2020, a new tax regime in Mexico will be effective regarding foreign transparent vehicles and changes were made to the preferential tax regime, as a result of such changes, the dividends from Heineken Group will be subject to a 30% income tax in Mexico when received.

Starting January 1, 2020, the excise tax increased from 5.0% to 7.0% to carbonated beverages added with sugar or any caloric sweetener. Drinkable foods based on dairy products, grains or cereals, nectars, fruit juices and vegetables with natural fruit concentrates are exempt from this tax.

In addition to the above, on October 30, 2019, Mexico approved a new Tax Reform, which will be effective on January 1, 2020.

The most relevant changes are: (i) Taxpayers will be limited to a net interest deduction equal to 30% of the entity's Adjusted Taxable Income (ATI). ATI will be determined similarly to EBITDA (earnings before interest, taxes, depreciation and amortization). A $20,000,000 pesos (approximately USD 1M) exception applies for deductible interest at a Mexican group level. The non-deductible interests that exceed the limitation could be carried forward for the subsequent 10 tax years; (ii) The reform modifies the excise tax (IEPS) of 1.17 pesos to 1.2616 per liter on the production, sale and import of beverages with added sugar and HFCS (High-fructose corn syrup) for flavored beverages and starting January 1, 2021, this tax will be subject to an annual increase based on the inflation of the previous year; (iii) The excise tax of 25% on energized beverages will be applicable whenever the beverages include a mixture of caffeine with any other stimulating effects substances; (iv) Federal Fiscal Code (FFC) was modified to attribute joint liability to partners, shareholders, directors, managers or any other responsible of the management of the business; (v) added a disclosure obligation of certain reportable transactions to tax authorities; and (vi) increased the tax authorities' discretion to limit tax benefits or attributes in situations where authorities understand there is a lack of business reason and no economic benefit obtained, other than the tax benefit.

On January 1, 2019, the Mexican government eliminated the right to offset any tax credit against any payable tax (general offset or *compensación universal*). As of such date, the right to offset any tax credit will be against taxes of the same nature and payable by the same person (not being able to offset tax credits against taxes payable by third parties). Additionally, by Executive Decree, certain tax benefits related to the value-added tax and income tax were provided to businesses located in the northern border of Mexico. Due to the territories where we operate, this last provision is not applicable to our business.

On January 1, 2019, a new tax reform became effective in Colombia. This reform reduced the income tax rate from 33.0% to 32.0% for 2020, to 31.0% for 2021 and to 30.0% for 2022. The minimum assumed income tax (*renta presuntiva sobre el patrimonio*) was also reduced from 3.5% to 1.5% for 2019 and 2020, and to null for 2021. In addition, the capitalization ratio was adjusted from 3:1 to 2:1 for operations with related parties only. As mentioned above, as of January 1, 2019, the value-added tax will be calculated at each sale instead of applied only to the first sale (being able to transfer the value-added tax throughout the entire supply chain). For the companies located in the free trade zone, the value-added tax will be calculated based on the cost of production instead of the cost of the imported raw materials (therefore, we will be able to credit the value added-tax on goods and services against the value added-tax on the sales price of our products). The municipality sales tax will be 50.0% credited against payable income tax for 2019 and 100.0% credited for 2020. Finally, the value-added tax paid on acquired fixed assets will be credited against income tax or the minimum assumed income tax.

The Tax Reform increases the dividend tax on distributions to foreign nonresidents entities and individuals from 5% to 7.5%. In addition, the tax reform establishes a 7.5% dividend tax on distributions between Colombian companies. The tax will be charged only on the first distribution of dividends between Colombian entities and may be credited against the dividend tax due once the ultimate Colombian company makes a distribution to its shareholders nonresident shareholders (individuals or entities) or to Colombian individual residents.

In October 2019, the Colombian Constitutional Court declared unconstitutional the tax reform of 2018 (Law 1943). On December 27, 2019, the Senate enacted a new tax reform through the Economic Growth Law, which became effective as of January 1, 2020. In general, the reform maintains the provisions introduced under Law 1943 with certain changes as follow: (i) reduction of the minimum assumed income tax rate (renta presuntiva sobre el patrimonio) from 1.5% to 0.5% for 2020 and maintained the 0% rate for year 2021 and onwards; (ii). reduction of dividends tax rate applicable to Colombian resident individuals from 15% to 10%; (iii) increasing of dividends tax rate applicable to foreign nonresidents (individuals and companies) from 7.5% to 10%; (iv) it postponed to 2022 the possibility of taxpayers to claim 100% of municipality sales tax as a credit against their income tax liability; and (v) gave more flexibility to recover VAT of imported goods from free trade zones.

On January 1, 2019 a tax reform became effective in Costa Rica. This reform will allow that tax on sales not only be applied to the first sale, but also to be applied and transferred for each sale; therefore, the tax credits on tax on sales will be recorded not only on goods related to production and on administrative services, but on a greater number of goods and services. Value-added tax on services provided within Costa Rica will be charged at tax rate of 13.0% if provided by local suppliers or withheld at the same rate if provided by foreigner suppliers. Although a territorial principle is still applicable in Costa Rica for operations abroad, a tax rate of 15.0% has been imposed on capital gains from the sale of assets located in Costa Rica. New income tax withholding rates were imposed on salaries and compensations of employees, at the rates of 25.0% and 20.0% (which will be applicable depending on the employee's salary), respectively. Finally, the thin capitalization rules were adjusted to provide that the interest expenses (generated with non-members of the financial system) that exceed 20.0% of the company's EBITDA will not be deductible for tax purposes.

On November 18, 2019, Panama's National Assembly voted through a national health program that included a tax on sugar-sweetened beverages. It imposed a 5.0% of excise tax (Impuesto Selectivo al Consumo) to non-carbonated beverages added with sugar or any caloric sweetener applicable since December 2019.

Since 2016, the Brazilian federal production and sales tax rates have been modified. However, the Supreme Court decided in early 2017 that the value-added tax will not be used as the basis for calculating the federal sales tax, which resulted in a reduction of the federal sales tax. Notwithstanding the above, the tax authorities appealed the Supreme Court's decision and are still waiting for a final resolution. For 2019, the federal production and sales taxes together resulted in an average of 16.3% tax over net sales.

In addition, the excise tax on concentrate in Brazil was reduced from 20.0% to 4.0% from September 1, 2018 to December 31, 2018. Temporarily the excise tax rate on concentrate increased from 4.0% to 12.0% from January 1, 2019 to June 30, 2019, then it will be reduced to 8.0% from July 1, 2019 to September 30, 2019, and increased to 10% from October 1, 2019 to December 31, 2019. On January 1st, 2020 the excise tax rate will be reduced back to 4.0%.

On January 1, 2018, a tax reform became effective in Argentina. This reform reduced the income tax rate from 35.0% to 30.0% for 2018 and 2019, and then to 25.0% for the following years. In addition, such reform imposed a new tax on dividends paid to non-resident stockholders and resident individuals at a rate of 7.0% for 2018 and 2019, and then to 13.0% for the following years.

However, on December 23, 2019, Argentina enacted a tax reform that became effective since January 2020, keeping the corporate income tax rate of 30% and the dividend withholding tax of 7% for two more years. Besides, beginning on 1 January 2020, taxpayers may deduct 100% of the negative or positive inflation adjustment the year in which the adjustment is calculated, instead of a six years period allocation.

In addition, this reform imposed a new tax applicable for 2020-2024 period, to purchases of foreign currency by Argentine residents to pay goods, services or obligations from abroad. The tax rate will be 30% and will apply to the amount of the taxable purchases. The tax will be withheld at the time of payment for the purchases.

For sales taxes in the province of Buenos Aires, the tax rate decreased from 1.75% to 1.5% in 2018; however, in the City of Buenos Aires, the tax rate increased from 1.0% to 2.0% in 2018, and will be reduced to 1.5% in 2019, 1.0% in 2020, 0.5% in 2021 and null in 2022.

On January 1, 2017, a general tax reform became effective in Colombia. This reform reduced the income tax rate from 35.0% to 34% for 2017 and then to 33% for the following 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 from 15% to 20% for 2017. Additionally, the reform eliminated the temporary tax on net equity, the supplementary income tax (9.0 %) as contribution to social programs and the temporary contributions 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.

During 2017, the Mexican government issued the Repatriation of Capital Decree which was valid from January 19 until October 19, 2017. Through this decree, a fiscal benefit was attributed to residents in Mexico by applying an income tax of 8% (instead of the statutory rate of 30% normally applicable) to the total amount of income returned to the country resulting from foreign investments held until December 2016.

Additionally, the Repatriation of Capital Decree sustains that the benefit will solely apply to income and investments returned to the country throughout the period of the decree. The resources repatriated must be invested during the fiscal year of 2017 and remain in national territory for a period of at least two years from the return date.

25.3 Income tax

The major components of income tax expense for the years ended December 31, 2019, 2018 and 2017 are:

	2019	2018	2017
Current tax expense	**Ps. 11,652**	Ps. 10,480	Ps. 18,592
Deferred tax expense (income):			
Origination and reversal of temporary differences	**127**	491	(7,546)
(Recognition) of tax losses, net	**(1,201)**	(927)	(823)
Change in the statutory rate	**(102)**	125	(10)
Total deferred tax income expense (benefit)	**(1,176)**	(311)	(8,379)
Total income taxes	**Ps. 10,476**	Ps. 10,169	Ps. 10,213

Recognized in Consolidated Statement of Other Comprehensive Income ("OCI")

Income tax related to items charged or recognized directly in OCI during the period:	2019	2018	2017
Unrealized loss on cash flow hedges	**Ps. (391)**	Ps. (293)	Ps. (191)
Exchange differences on translation of foreign operations	**(1,667)**	(2,647)	387
Remeasurements of the net defined benefit liability	**(371)**	287	(154)
Share of the other comprehensive income of equity accounted investees	**288**	989	(1,465)
Total income tax benefit recognized in OCI	**Ps. (2,141)**	Ps. (1,664)	Ps. (1,423)

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, 2019, 2018 and 2017 is as follows:

	2019	2018	2017
Mexican statutory income tax rate	**30.0%**	30.0%	30.0%
Difference between book and tax inflationary values and translation effects	**(2.2%)**	(4.0%)	(5.7%)
Annual inflation tax adjustment	**0.2%**	(1.2%)	0.5%
Difference between statutory income tax rates	**0.9%**	1.8%	1.2%
Repatriation of capital benefit decree	**–**	–	(22.6%)
Non-deductible expenses	**4.5%**	3.2%	2.6%
Non-taxable income	**(1.0%)**	(0.5%)	–
Effect of changes in Argentina tax law	**(0.3%)**	(0.9%)	–
Income tax credits	**–**	–	(2.0%)
Venezuela deconsolidation effect	**–**	–	28.6%
Others	**0.3%**	1.8%	(4.1%)
	32.4%	30.2%	28.6%

Deferred Income Tax Related to:

	Consolidated Statement of Financial Position as of		Consolidated Statement of Income		
	December 31, 2019	December 31, 2018	2019	2018	2017
Allowance for doubtful accounts	**Ps. (437)**	Ps. (416)	**Ps. (43)**	Ps. 93	Ps. 16
Inventories	**76**	80	**(6)**	(27)	(71)
Other current assets	**256**	75	**182**	(31)	34
Property, plant and equipment, net	**(4,068)**	(3,841)	**(320)**	(851)	(2,349)
Investments in equity accounted investees	**(5,482)**	(5,979)	**7**	40	(5,094)
Other assets	**137**	212	**59**	(82)	(155)
Finite useful lived intangible assets	**(111)**	271	**(345)**	627	207
Indefinite lived intangible assets	**10,788**	10,331	**1,220**	758	968
Post-employment and other long-term employee benefits	**(1,067)**	(1,058)	**(2)**	(148)	(77)
Derivative financial instruments	**(9)**	21	**(31)**	(63)	(171)
Provisions	**(1,216)**	(2,761)	**1,359**	1,122	(636)
Temporary non-deductible provision	**(3,183)**	(1,400)	**(1,797)**	(293)	(144)
Employee profit sharing payable	**(430)**	(403)	**8**	(27)	(11)
Tax loss carryforwards	**(10,309)**	(9,558)	**(1,201)**	(927)	(547)
Tax credits to recover [2]	**(1,855)**	(1,855)	**(122)**	(109)	(1,059)
Other comprehensive income [1]	**(596)**	229	**29**	(54)	(224)
Exchange differences on translation of foreign operations in OCI	**3,959**	5,202	**–**	–	–
Other liabilities	**533**	193	**(3)**	(324)	948
Right of use from leases, net	**(561)**	–	**(577)**	–	–
Deferred tax income			**Ps. (1,583)**	Ps. (296)	Ps. (8,355)
Deferred tax income net recorded in share of the profit of equity accounted investees			**407**	(15)	(24)
Deferred tax income, net			**Ps. (1,176)**	Ps. (311)	Ps. (8,379)
Deferred income taxes, net	**(13,575)**	(10,657)			
Deferred tax asset	**(20,521)**	(16,543)			
Deferred tax liability	**Ps. 6,946**	Ps. 5,886			

[1] Deferred tax related to derivative financial instruments and remeasurements of the net defined benefit liability.

[2] Correspond to income tax credits arising from 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.

Deferred Tax Related to Accumulated Other Comprehensive Income ("AOCI")

Income tax related to items charged or recognized directly in AOCI as of the year:	2019	2018
Unrealized loss on derivative financial instruments	**Ps. (36)**	Ps. 361
Remeasurements of the net defined benefit liability	**(560)**	(132)
Total deferred tax loss related to AOCI	**Ps. (596)**	Ps. 229

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

	2019	2018	2017
Balance at the beginning of the period	**Ps. (10,657)**	Ps. (9,720)	Ps. (1,016)
Deferred tax provision for the period	**(1,176)**	(311)	(8,218)
Deferred tax income net recorded in share of the profit of equity accounted investees	**(406)**	165	(67)
Acquisition of subsidiaries	**(382)**	(316)	(367)
Effects in equity:			
Unrealized (gain) loss on cash flow hedges	**(391)**	(445)	(83)
Exchange differences on translation of foreign operations	**(2,121)**	(1,762)	(1,472)
Remeasurements of the net defined benefit liability	**(204)**	543	131
Retained earnings of equity accounted investees	**384**	54	(38)
Cash flow hedges in foreign investments	**425**	310	(540)
Restatement effect of the period and beginning balances associated with hyperinflationary economies	**953**	438	1,689
Disposal of subsidiaries	**–**	387	–
Deconsolidation of subsidiaries	**–**	–	261
Balance at the end of the period	**Ps. (13,575)**	Ps. (10,657)	Ps. (9,720)

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 corresponding years of expiration are as follows:

Year	Tax Loss Carryforwards
2020	**Ps. 825**
2021	**351**
2022	**221**
2023	**227**
2024	**610**
2025	**4,876**
2026	**4,706**
2027	**35**
2028	**2,247**
2029 and thereafter	**3,984**
No expiration (Brazil and Colombia)	**14,454**
	Ps. 32,536

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 which NOLs have no expiration, but their usage is limited to 30% of Brazilian taxable income in any given year. As of December 31, 2019, 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.

Additionally as of December 31, 2019 and 2018, Coca-Cola FEMSA has unused tax losses in Colombia for an amount of Ps. 2 and Ps. 2, respectively.

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

	2019	2018
Balance at beginning of the period	**Ps. 29,941**	Ps. 29,487
Derecognized	**(377)**	(306)
Additions	**7,194**	4,124
Usage of tax losses	**(2,947)**	(1,385)
Translation effect of beginning balances	**(1,275)**	(1,979)
Balance at end of the period	**Ps. 32,536**	Ps. 29,941

There were no withholding taxes associated with the payment of dividends in either 2019, 2018 or 2017 by the Company to its shareholders.

The Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As of December 31, 2019, 2018 and 2017, 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. 49,255, Ps. 45,305 and Ps. 41,915, respectively.

Note 26. Other Liabilities, Provisions, Contingencies and Commitments

26.1 Other current financial liabilities

	December 31, 2019	December 31, 2018
Sundry creditors	**Ps. 11,509**	Ps. 8,489
Derivative financial instruments (see Note 21)	**848**	384
Other notes payable [1]	**11,294**	–
Others	**4**	20
Total	**Ps. 23,655**	Ps. 8,893

[1] Related to Socofar's put option exercised on December 13, 2019.

26.2 Provisions and other non-current liabilities

	December 31, 2019	December 31, 2018
Contingencies	**Ps. 8,854**	Ps. 9,928
Payable taxes	**710**	873
Others	**879**	767
Total	**Ps. 10,443**	Ps. 11,568

26.3 Other financial liabilities

	December 31, 2019	December 31, 2018
Derivative financial instruments (see Note 21)	**Ps. 1,672**	Ps. 1,262
Security deposits	**809**	970
Total	**Ps. 2,481**	Ps. 2,232

26.4 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 contingencies are the result of the Company's business acquisitions. The following table presents the nature and amount of the contingencies recorded as of December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Indirect taxes	**Ps. 5,062**	Ps. 5,421
Labor	**2,455**	2,601
Legal	**1,337**	1,906
Total	**Ps. 8,854**	Ps. 9,928

26.5 Changes in the balance of provisions recorded

26.5.1 Indirect taxes

	December 31, 2019	December 31, 2018	December 31, 2017
Balance at beginning of the period	**Ps. 5,421**	Ps. 6,836	Ps. 11,065
Penalties and other charges	**1**	123	362
New contingencies	**486**	178	91
Contingencies added in business combination	**–**	104	861
Cancellation and expiration	**(247)**	106	(796)
Payments	**(174)**	(112)	(947)
Brazil amnesty adoption	**–**	–	(3,321)
Effects of changes in foreign exchange rates	**(425)**	(951)	(479)
Effects due to derecognition of Philippines	**–**	(863)	–
Balance at end of the period	**Ps. 5,062**	Ps. 5,421	Ps. 6,836

26.5.2 Labor

	December 31, 2019	December 31, 2018	December 31, 2017
Balance at beginning of the period	**Ps. 2,601**	Ps. 2,723	Ps. 2,578
Penalties and other charges	**293**	310	56
New contingencies	**521**	330	283
Contingencies added in business combination	**44**	289	–
Cancellation and expiration	**(283)**	(133)	(32)
Payments	**(500)**	(193)	(92)
Effects of changes in foreign exchange rates	**(221)**	(725)	(69)
Venezuela deconsolidation effect	**–**	–	(1)
Balance at end of the period	**Ps. 2,455**	Ps. 2,601	Ps. 2,723

26.5.3 Legal

	December 31, 2019	December 31, 2018	December 31, 2017
Balance at beginning of the period	**Ps. 1,906**	Ps. 3,296	Ps. 2,785
Penalties and other charges	**94**	86	121
New contingencies	**213**	72	186
Contingencies added in business combination	**77**	67	783
Cancellation and expiration	**(542)**	(146)	(16)
Payments	**(318)**	(251)	(417)
Brazil amnesty adoption	**–**	–	7
Effects of changes in foreign exchange rates	**(93)**	(335)	(151)
Venezuela deconsolidation effect	**–**	–	(2)
Effects due to derecognition of Philippines	**–**	(883)	–
Balance at end of the period	**Ps. 1,337**	Ps. 1,906	Ps. 3,296

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.

26.6 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, 2019 is Ps. 81,683. 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. 10,378, with loss expectations assessed by management and supported by the analysis of legal counsel considered as possible. Among these possible contingencies, are Ps. 34,102 in various tax disputes related primarily to credits for ICMS ("VAT") and Ps. 6,274 related to tax credits of "IPI" over raw materials acquired from Free Trade Zone Manaus. Possible claims also include Ps. 3,183 related to compensation of federal taxes not approved by the IRS (Tax authorities) and Ps. 53,936 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 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 subsidiaries operates. The Company does not expect any material liability to arise from these contingencies.

26.7 Collateralized contingencies

As is customary in Brazil, Coca-Cola FEMSA has been required by the tax authorities there to collateralize tax contingencies currently in litigation amounting to Ps. 10,471, Ps. 7,739 and Ps. 9,433 as of December 31, 2019, 2018 and 2017, respectively, by pledging fixed assets and entering into available lines of credit covering the contingencies, see Note 14. Also, as disclosed in Note 9.2, there is some restricted cash in Brazil related to current deposits in order to fulfill the collateral requirements for accounts payable.

26.8 Commitments

The Company has firm commitments for the purchase of property, plant and equipment of Ps. 556 as of December 31, 2019.

Note 27. Information by Segment

The 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 revenues, 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.

In 2018, FEMSA made a change to the disclosure related to the businesses segments formerly named as FEMSA Comercio's "Retail Division" by removing those operations that are not directly related to Proximity store business, including restaurant and discount retail units, from this segment. The business segment is now named the FEMSA Comercio – "Proximity Division" and will only include Proximity and Proximity-related operations, most of which operate today under the OXXO brand across markets. The removed operations are included in "Other." The financial information by operating segment reported below for the year ended December 31, 2017 has been restated in order to give effect to business units' reorganization described above.

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:

2019	Coca-Cola FEMSA	FEMSA Comercio – Proximity Division	FEMSA Comercio – Health Division	FEMSA Comercio – Fuel Division	Heineken Investment	Other [1]	Consolidation Adjustments	Consolidated
Total revenues	Ps. 194,471	Ps. 184,810	Ps. 58,922	Ps. 47,852	Ps. –	Ps. 41,788	Ps. (21,132)	Ps. 506,711
Intercompany revenue	5,688	325	–	11	–	15,108	(21,132)	–
Gross profit	87,507	75,099	17,645	4,775	–	11,551	(5,096)	191,481
Administrative expenses	–	–	–	–	–	–	–	19,930
Selling expenses	–	–	–	–	–	–	–	121,871
Other income	–	–	–	–	–	–	–	1,013
Other expenses	–	–	–	–	–	–	–	4,905
Interest expense	6,904	5,733	1,226	1,175	1	2,303	(3,209)	14,133
Interest income	1,230	338	10	114	23	4,563	(3,110)	3,168
Other net finance loss [3]	–	–	–	–	–	–	–	(2,527)
Income before income taxes and share of the profit of equity accounted investees	18,409	11,458	1,487	124	10	449	359	32,296
Income taxes	5,648	923	556	49	(491)	3,791	–	10,476
Share of the profit of equity accounted investees, net of tax	(131)	9	–	–	6,428	(78)	–	6,228
Net income from continuing operations	–	–	–	–	–	–	–	28,048
Net income from discontinued operations	–	–	–	–	–	–	–	–
Consolidated net income	–	–	–	–	–	–	–	28,048
Depreciation and amortization [2]	10,642	9,604	3,112	855	–	1,708	(112)	25,810
Non-cash items other than depreciation and amortization	1,083	529	23	105	–	755	–	2,495
Investments in equity accounted investees	9,751	3,719	–	–	83,789	211	–	97,470
Total assets	257,841	117,229	54,366	17,701	86,639	158,746	(54,981)	637,541
Total liabilities	128,154	98,468	53,468	16,754	3,151	66,812	(55,017)	311,790
Investments in fixed assets [4]	11,465	10,374	1,529	706	–	1,685	(180)	25,579

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

[2] Includes bottle breakage.

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

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

2018	Coca-Cola FEMSA	FEMSA Comercio – Proximity Division	FEMSA Comercio – Health Division	FEMSA Comercio – Fuel Division	Heineken Investment	Other [1]	Consolidation Adjustments	Consolidated
Total revenues	Ps. 182,342	Ps. 167,458	Ps. 51,739	Ps. 46,936	Ps. –	Ps. 42,293	Ps. (21,024)	Ps. 469,744
Intercompany revenue	5,160	290	–	–	–	15,574	(21,024)	–
Gross profit	83,938	65,529	15,865	4,231	–	10,233	(4,626)	175,170
Administrative expenses	–	–	–	–	–	–	–	17,313
Selling expenses	–	–	–	–	–	–	–	114,573
Other income	–	–	–	–	–	–	–	673
Other expenses	–	–	–	–	–	–	–	2,947
Interest expense	7,568	1,806	678	211	1	2,057	(2,496)	9,825
Interest income	1,004	372	14	159	22	3,757	(2,496)	2,832
Other net finance income [3]	–	–	–	–	–	–	–	(387)
Income before income taxes and share of the profit of equity accounted investees	17,190	13,335	1,438	407	11	1,219	30	33,630
Income taxes	5,260	1,124	652	123	4	3,006	–	10,169
Share of the profit of equity accounted investees, net of tax	(226)	(17)	–	–	6,478	17	–	6,252
Net income from continuing operations	–	–	–	–	–	–	–	29,713
Net income from discontinued operations	–	–	–	–	–	–	–	3,366
Consolidated net income	–	–	–	–	–	–	–	33,079
Depreciation and amortization [2]	10,028	4,971	983	152	–	1,103	–	17,237
Non-cash items other than depreciation and amortization	755	367	22	11	–	490	–	1,645
Investments in equity accounted investees	10,518	84	–	–	83,461	252	–	94,315
Total assets	263,787	75,146	35,881	7,015	86,340	150,674	(42,462)	576,381
Total liabilities	132,037	56,468	23,357	6,142	4,054	61,340	(42,559)	240,839
Investments in fixed assets [4]	11,069	9,441	1,162	520	–	2,391	(317)	24,266

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

[2] Includes bottle breakage.

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

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

2017 (Revised) [5]	Coca-Cola FEMSA	FEMSA Comercio – Proximity Division	FEMSA Comercio – Health Division	FEMSA Comercio – Fuel Division	Heineken Investment	Other [1]	Consolidation Adjustments	Consolidated
Total revenues	Ps. 183,256	Ps. 149,833	Ps. 47,421	Ps. 38,388	Ps. –	Ps. 39,732	Ps. (18,698)	Ps. 439,932
Intercompany revenue	4,679	202	–	–	–	13,817	(18,698)	–
Gross profit	83,508	56,127	14,213	2,767	–	9,307	(3,832)	162,090
Administrative expenses	–	–	–	–	–	–	–	15,222
Selling expenses	–	–	–	–	–	–	–	105,880
Other income	–	–	–	–	–	–	–	31,951
Other expenses	–	–	–	–	–	–	–	33,866
Interest expense	8,778	1,313	685	156	–	2,372	(2,212)	11,092
Interest income	791	306	23	47	23	2,492	(2,212)	1,470
Other net finance expenses [3]	–	–	–	–	–	–	–	6,320
Income before income taxes and share of the profit of equity accounted investees	(11,255)	11,723	956	146	30,000	4,265	(64)	35,771
Income taxes	4,184	762	434	23	(5,132)	9,942	–	10,213
Share of the profit of equity accounted investees, net of tax	60	5	–	–	7,847	11	–	7,923
Net income from continuing operations	–	–	–	–	–	–	–	33,480
Net income from discontinued operations	–	–	–	–	–	–	–	3,726
Consolidated net income	–	–	–	–	–	–	–	37,206
Depreciation and amortization [2]	9,632	4,144	942	118	–	804	–	15,640
Non-cash items other than depreciation and amortization	1,663	285	31	18	–	267	–	2,264
Investments in equity accounted investees	11,501	642	–	–	83,720	234	–	96,097
Total assets	285,677	64,717	38,496	4,678	76,555	154,930	(36,512)	588,541
Total liabilities	144,967	49,101	25,885	4,091	1,343	62,754	(36,512)	251,629
Investments in fixed assets [4]	12,917	8,396	774	291	–	1,479	(371)	23,486

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

[2] Includes bottle breakage.

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

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

[5] Disclosure has been revised for the restructuring of FEMSA Comercio – Proximity Division and for 2017 the discontinued Philippines operations of Coca-Cola FEMSA Philippines. The assets (Ps. 28,272) and liabilities (Ps. 9,945) for the discontinued operation for 2017 of Philippines segment are included in Mexico and Central America.

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, Ecuador, Peru and Uruguay). (iii) Europe (comprised of the Company's equity method investment in Heineken Group). For further information related with aggregates geographic areas see Note 28.2 Disaggregation of revenue.

Geographic disclosure for the Company non-current assets is as follow:

	2019	2018
Mexico and Central America [1]	**Ps. 244,199**	Ps. 195,310
South America [2]	**136,480**	120,003
Europe	**83,789**	83,461
Consolidated	**Ps. 464,468**	Ps. 398,774

[1] Domestic (Mexico only) non-current assets were Ps. 236,915 and Ps. 185,857 , as of December 31, 2019, and December 31, 2018, respectively.

[2] South America non-current assets includes Brazil, Argentina, Colombia, Chile and Uruguay. Brazilian non-current assets were Ps. 79,710 and Ps. 76,869, as of December 31, 2019 and December 31, 2018, respectively. Colombia non-current assets were Ps. 16,463 and Ps. 16,664, as of December 31, 2019 and December 31, 2018, respectively. Argentina non-current assets were Ps. 4,043 and Ps. 4,538, as of December 31, 2019 and December 31, 2018, respectively. Chile non-current assets were Ps. 31,487 and Ps. 16,787, as of December 31, 2019 and December 31, 2018, respectively. Uruguay non-current assets were Ps. 4,781 and Ps. 5,145, as of December 31, 2019 and December 31, 2018, respectively.

Note 28. Revenues

28.1 Nature of goods sold and services

The information sets below described the core activities of the business units from which the Company generates its revenues. According to the standard, the performance obligation for the Company's business units are satisfied in a point in time that the control of good and services are totally transferred to the customers. For detail information about business segments, see Note 27.

Segment	Product or Service	Nature, timing to fulfill the performance obligation and significant payment terms
Coca-Cola FEMSA	Beverages sales	Includes the delivery of beverages to customers and wholesalers. The transaction prices are assigned to each product on sale based on its own sale price separately, net of promotions and discounts. The performance obligation is satisfied at the point in time the product on sale is delivered to the customer.
	Services revenues	Includes the rendering of manufacturing services, logistic and administrative services. The transaction prices are assigned to each product on sale based on its own sale price if sold separately. The performance obligation is satisfied at the point in time the product on sale is delivered to the customer.
FEMSA Comercio – Proximity Division	Products sales	Operates the largest chain of small-format stores in Mexico and Latin America including as some of its principal products as beers, cigarettes, sodas, other beverages and snacks. The performance obligation is satisfied at the time of the sale or at the moment the control of the product is transferred and the payment is made by the customer.
	Commercial revenues	Includes mainly the commercialization of spaces into within stores, and revenues related to promotions and financial services. The performance obligation is satisfied at the point in time the service is render to the customer.
FEMSA Comercio – Health Division	Product sales	The core products include patent and generic formulas of medicines, beauty products, medical supplements, housing and personnel care products. The performance obligation is satisfied at the point in time of the sale or at the moment the control of the product is transferred to the customer.
	Services revenues	Rending of services adding value as financial institutions, medical consultation and some financial services. The performance obligation is satisfied at the point in time of the rendering or the control is transferred to the customer.
FEMSA Comercio – Fuel Division	Services revenues	The core products are sold in the retail service stations as fuels, diesel, motor oils and other car care products. The performance obligation is satisfied at the point in time on sale and/or the control is transferred to the customer.
Others	Integral logistic services	Rendering a wide range of logistic services and maintenance of vehicles to subsidiaries and customers. The operations are on a daily, monthly or based upon the customer request. The revenue is recognized progressively during the time the service is rendered in a period no greater than a month.
	Production and sale of commercial refrigeration, plastic solutions and sale of equipment for food processing	Involves the production, commercialization of refrigerators including its delivery and installation and offering of integral maintenance services at the point of sale. Design, manufacturing and recycling of plastic products. In addition, it includes the sale of equipment for food processing, storage and weighing. The revenue recognition is performed at the time in which the corresponding installation is concluded. The recognition of other business lines is performed at the point of sale or in time the control of the product is transferred to the customer.

28.2 Disaggregation of revenue

The information sets below described the disaggregation of revenue by geographic area, business unit and products and services categories in which the Company operates. The timing in which the revenues is recognized by the business units in the Company, is the point in the time in which control of goods and services is transferred in its entirely to the customer.

	Coca-Cola FEMSA			FEMSA Comercio – Proximity Division			FEMSA Comercio – Health Division			FEMSA Comercio – Fuel Division			Other Segments			Total		
	2019	2018 [1]	2017	2019	2018 [1]	2017	2019	2018 [1]	2017	2019	2018 [1]	2017	2019	2018 [1]	2017	2019	2018 [1]	2017
By geographic areas:																		
Mexico and Central America [2]	**Ps. 109,249**	Ps. 100,162	Ps. 92,643	**Ps.182,864**	Ps. 166,040	Ps. 148,652	**Ps. 8,170**	Ps. 7,898	Ps. 7,359	**Ps. 47,852**	Ps. 46,936	Ps. 38,388	**Ps. 32,217**	Ps. 31,918	Ps. 29,211	**Ps. 380,352**	Ps. 352,954	Ps. 316,253
South America [3]	**85,223**	82,180	86,608	**1,946**	1,418	1,181	**50,752**	43,841	40,062	**–**	–	–	**9,552**	10,350	10,467	**147,473**	137,789	138,318
Venezuela	**–**	–	4,005	**–**	–	–	**–**	–	–	**–**	–	–	**18**	25	54	**18**	25	4,059
Total revenues	**194,472**	182,342	183,256	**184,810**	167,458	149,833	**58,922**	51,739	47,421	**47,852**	46,936	38,388	**41,787**	42,293	39,732	**527,843**	490,768	458,630
Consolidation adjustments	**5,688**	5,160	4,678	**325**	290	202	**–**	–	–	**11**	–	–	**15,108**	15,574	13,818	**21,132**	21,024	18,698
Consolidated revenues	**188,784**	177,182	178,578	**184,485**	167,168	149,632	**58,922**	51,739	47,421	**47,841**	46,936	38,388	**26,679**	26,719	25,913	**506,711**	469,744	439,932
By products and/or services																		
Products sold in the point-of-sale	**Ps. 194,472**	Ps. 182,342	Ps. 183,256	**Ps.184,810**	Ps 167,458	Ps. 149,834	**Ps. 58,922**	Ps. 51,739	Ps. 47,421	**Ps. 47,852**	Ps. 46,936	Ps. 38,388	**Ps. 13,198**	Ps. 13,240	Ps. 12,667	**Ps. 499,254**	Ps. 461,715	Ps. 431,566
Services revenues	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–	**28,589**	29,053	27,064	**28,589**	29,053	27,064
Consolidation adjustments	**5,688**	5,160	4,678	**325**	290	202	**–**	–	–	**11**	–	–	**15,108**	15,574	13,818	**21,132**	21,024	18,698
Consolidated revenues	**188,784**	177,182	178,578	**184,485**	167,168	149,632	**58,922**	51,739	47,421	**47,841**	46,936	38,388	**26,679**	26,719	25,913	**506,711**	469,744	439,932

[1] For IFRS 15 adoption purposes, the Company applies the modified retrospective method in which no comparative information is restated for previous periods. The Company recognized no adjustment as a result of adopting IFRS 15.

[2] Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico only) revenues were Ps. 346,659, Ps. 319,792 and Ps. 288,783 and during the years ended December 31, 2019, 2018 and 2017, respectively.

[3] South America includes Brazil, Argentina, Colombia, Chile, Uruguay, Ecuador and Venezuela, although Venezuela is shown separately for 2017. South America revenues include Brazilian revenues of Ps. 67,076, Ps. 63,601 and Ps. 64,345 during the years ended December 31, 2019, 2018 and 2017, respectively. South America revenues include Colombia revenues of Ps. 16,440, Ps. 19,245 and Ps. 17,545 during the years ended December 31, 2019, 2018 and 2017, respectively. South America revenues include Argentina revenues of Ps. 6,857, Ps. 9,237 and Ps. 13,938 during the years ended December 31, 2019, 2018 and 2017, respectively. South America revenues include Chile revenues of Ps. 45,276, Ps. 44,576 and Ps. 40,660 during the years ended December 31, 2019, 2018 and 2017, respectively. South America revenues include Uruguay revenue of Ps. 3,421 and Ps. 1,925 during the years ended in December 31, 2019 and 2018, respectively. South America revenues include Ecuador revenue of Ps. 6,539 during the year ended in December 31, 2019.

28.3 Contract balances

As of December 31, 2019, no significant cost was identified incurred to obtain or accomplished a contract that might be capitalized as assets. No significant contacts have been entered into for which the Company has not performed all the obligations as well as additional costs associate to it.

28.4 Transaction price assigned to remained performance obligations

No performance obligations were identified in customer contracts that are not included in the transaction price, as a result of identified variable considerations per each business unit are part of the transaction price through be consider highly probable that not occurs a significant reversion of the revenue amount.

Note 29. Future Impact of Recently Issued Accounting Standards not yet in Effect

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

Modifications to the Conceptual Framework

The Conceptual Framework for Financial Information ("Conceptual Framework") have been issued on March 2018 replacing the previous version of the Conceptual Framework issued on 2010. The Conceptual Framework describes the purpose and concepts of general purpose for the financial information. The purpose of the Conceptual Framework is to:

a) Help to the IASB to develop standards that are based on consistent concepts;

b) Assist to preparers to develop congruent accounting policies when no Standard is applicable to a specific transaction or event, or when a Standard allows an accounting policy option; and

c) Help to all parties to understand and interpret the Standards.

The Conceptual Framework is not a Standard. No content of the Conceptual Framework prevails over any Standard or requirement of a Standard.

The Conceptual Framework is effective immediately for the IASB and the IFRIC, and is effective for periods beginning on or after January 1, 2020, and its early application is permitted, for companies that use the Conceptual Framework to develop their accounting policies when IFRS are not applicable for a particular transaction.

As long as the Company's accounting policy is in line with these modifications, the Company does not expect any effect on its consolidated financial statements.

Modifications to IFRS 3 Definition of a Business ("IFRS 3")

The IASB issued an amendment to IFRS 3 in October 2018 that revises the definition of a business. The modified definition emphasizes that the purpose of a business is to provide goods and services to the customers, while the previous definition was focus on returns in dividends, lower costs or other economic benefits for investors and others. The distinction between a business and a group of assets is important because an acquirer recognizes a goodwill when a business is acquired. The amendments to IFRS 3 are effective beginning on January 1, 2020 and their early application is allowed.

As long as the Company's accounting policy is aligned with these modifications, the Company does not expect any effect on its consolidated financial statements.

Modifications to IAS 1 and IAS 8 Definition of Material or relative importance ("IAS 1" and "IAS 8")

The definition of material or relative importance helps to the Company to determine whether information about an item, transaction or other event should be provided to the users of the financial statements. However, the Companies had difficulty using the above definition of material or with relative importance in making materiality judgments or with relative importance in the preparation of the financial statements. Accordingly, the IASB published the Definition of Material or Relative Importance (Amendments to IAS 1 and IAS 8) in October 2018. The amendments to IAS 1 and IAS 8 will be effective on January 1, 2020 and its early application is allowed. The Company does not expect to have significant effects on its consolidated financial statements.

Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 *Financial Instruments: Disclosures*, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).

The amendments to IFRS 9

The amendments include a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

Application of the reliefs is mandatory. The first three reliefs provide for:

- The assessment of whether a forecast transaction (or component thereof) is highly probable.
- Assessing when to reclassify the amount in the cash flow hedge reserve to profit and loss.
- The assessment of the economic relationship between the hedged item and the hedging instrument.

For each of these reliefs, it is assumed that the benchmark on which the hedged cash flows are based (whether or not contractually specified) and/or, for relief three, the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform.

A fourth relief provides that, for a benchmark component of interest rate risk that is affected by IBOR reform, the requirement that the risk component is separately identifiable need be met only at the inception of the hedging relationship. Where hedging instruments and hedged items may be added to or removed from an open portfolio in a continuous hedging strategy, the separately identifiable requirement need only be met when hedged items are initially designated within the hedging relationship.

To the extent that a hedging instrument is altered so that its cash flows are based on an RFR, but the hedged item is still based on IBOR (or vice versa), there is no relief from measuring and recording any ineffectiveness that arises due to differences in their changes in fair value.

The reliefs continue indefinitely in the absence of any of the events described in the amendments. When an entity designates a group of items as the hedged item, the requirements for when the reliefs cease are applied separately to each individual item within the designated group of items.

The amendments also introduce specific disclosure requirements for hedging relationships to which the reliefs are applied.

The amendments are effective for annual periods beginning on or after January 1, 2020 and must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed. Company do not expect to have significant effects on its consolidated financial statements.

Note 30. Subsequent Events

On January 9, 2020, FEMSA completed the acquisition of the remaining 40% interest in Grupo Socofar ("Socofar") following the exercise of a put right by FEMSA's minority partner on December 13, 2019 to sell its remaining interest in Socofar.

On January 16, 2020, the Company issued U.S. $1,500 million 3.500% senior unsecured notes at an anual rate of 130 basis points over the relevant benchmark. In addition, on February 12, 2020, the Company placed a re-tap to its US-denominated SEC-registered Senior Unsecured Notes due 2050 and issued U.S. $300 million 3.500% at an annual rate of 137.5 basis points over the relevant benchmark, raising the total outstanding balance to U.S. $1,800 million with an implied yield to maturity of 3.577%.

On January 22, 2020, Coca-Cola FEMSA issued U.S. $1,250 million aggregate principal amount of 2.750% senior notes due January 22, 2030. These notes were used to prepaid Senior Note of $ 900 with an interest rate of 3.88% with due date on November 26, 2023. These notes are guaranteed by the Guarantors. The indenture governing these notes imposes, among others, certain conditions upon a consolidation or merger by Coca-Cola FEMSA and restricts the incurrence of liens and the entering into sale and leaseback transactions by Coca-Cola FEMSA and our significant subsidiaries.

On February 7, 2020, Coca-Cola FEMSA issued (i) Ps. 3,000 million aggregate amount of 8-year fixed rate promisory note bearing an annual interest rate of 7.35% and due January 2028, and (ii) Ps. 1,727 million aggregate amount of 5.5-year floating rate promisory note, priced at 28-day Equilibrium Interbank Interest Rate, or TIIE plus 0.08% and due August 2025.

On March 9, 2020, the Company entered into definitive agreements with the shareholders of WAXIE Sanitary Supply ("WAXIE") and North American Corporation ("North American") to form a new platform within the Jan-San, Packaging and Specialized distribution industry in the United States. The platform will bring together two market leaders in this field: WAXIE And North American, with FEMSA acquiring a majority controlling interest of 90% in the combined company for U.S. $900 million.

In March 2020, we entered into certain short-term bank loan in Mexican pesos for an aggregate principal amount of Ps.15,000 million.

On March 12, 2020, the Company's Board of Directors agreed to propose the payment of a cash ordinary dividend in the amount of Ps. 10,360, which will be split in a number of installments and dates during 2020 and will be determined by the Board of Directors. This ordinary dividend was approved by the Annual Shareholders meeting on March 20, 2020.