

MEXICAN ECONOMIC DEVELOPMENT INC

Form 20-F

April 21, 2017

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As filed with the Securities and Exchange Commission on April 21, 2017

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 20-F**  
**ANNUAL REPORT PURSUANT TO SECTION 13**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2016

Commission file number 001-35934

**Fomento Económico Mexicano, S.A.B. de C.V.**

(Exact name of registrant as specified in its charter)

**Mexican Economic Development, Inc.**

(Translation of registrant's name into English)

**United Mexican States**

(Jurisdiction of incorporation or organization)

**General Anaya No. 601 Pte.**

**Colonia Bella Vista**

**Monterrey, NL 64410 Mexico**

(Address of principal executive offices)

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**Juan F. Fonseca**

**General Anaya No. 601 Pte.**

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**Monterrey, NL 64410 Mexico**

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**investor@femsa.com.mx**

**(Name, telephone, e-mail and/or facsimile number and**

**address of company contact person)**

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

| <b>Title of each class:</b>   | <b>Name of each exchange on which registered:</b> |
|---|---|
| <b>American Depositary Shares, each representing 10 BD Units,<br/>and each BD Unit consisting of one Series B Share, two Series<br/>D-B Shares and two Series D-L Shares,</b> | <b>New York Stock Exchange</b>                    |
| <b>without par value</b>  |   |
| <b>2.875% Senior Notes due 2023</b>   | <b>New York Stock Exchange</b>                    |
| <b>4.375% Senior Notes due 2043</b>   | <b>New York Stock Exchange</b>                    |

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**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

None

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

None

**Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:**

2,161,177,770 BD Units, each consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, without par value. The BD Units represent a total of 2,161,177,770 Series B Shares, 4,322,355,540 Series D-B Shares and 4,322,355,540 Series D-L Shares.

1,417,048,500 B Units, each consisting of five Series B Shares without par value. The B Units represent a total of 7,085,242,500 Series B Shares.

**Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.**

Yes

No

**If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**

Yes

No

**Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). N/A**

Yes

No

**Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.**

Yes

No

**Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act.**

Large Accelerated filer  
Non-accelerated filer

Accelerated filer  
Emerging growth company

**If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.**

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The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

**Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:**

U.S. GAAP

IFRS

Other

**If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.**

Item 17

Item 18

**If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).**

Yes

No

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### **INTRODUCTION**

This annual report contains information materially consistent with the information presented in the audited consolidated financial statements and is free of material misstatements of fact that are not material inconsistencies with the information in the audited consolidated financial statements.

### **References**

The terms FEMSA, our company, we, us and our, are used in this annual report to refer to Fomento Económico Mexicano, S.A.B. de C.V. a except where the context otherwise requires, its subsidiaries on a consolidated basis. We refer to our former subsidiary Cuauhtémoc Moctezuma Holding, S.A. de C.V. (formerly FEMSA Cerveza, S.A. de C.V.) as Cuauhtémoc Moctezuma or FEMSA Cerveza, to our subsidiary Coca-Cola FEMSA, S.A.B. de C.V., as Coca-Cola FEMSA, to our subsidiary FEMSA Comercio, S.A. de C.V., as FEMSA Comercio, and to our subsidiary that holds our equity investment in Heineken, as CB Equity. FEMSA Comercio comprises a Retail Division, Fuel Division and Health Division, which we refer to as the Retail Division, Fuel Division and Health Division, respectively.

The term S.A.B. stands for *sociedad anónima bursátil*, which is the term used in the United Mexican States, or Mexico, to denominate a publicly traded company under the Mexican Securities Market Law (*Ley del Mercado de Valores*), which we refer to as the Mexican Securities Law.

References to U.S. dollars, US\$, dollars or \$ are to the lawful currency of the United States of America (which we refer to as the United States). References to Mexican pesos, pesos or Ps. are to the lawful currency of Mexico. References to euros or are to the lawful currency of the European Economic and Monetary Union (which we refer to as the Euro Zone).

As used in this annual report, sparkling beverages refers to non-alcoholic carbonated beverages. Still beverages refers to non-alcoholic non-carbonated beverages. Non-flavored waters, whether or not carbonated, are referred to as waters.

### **Currency Translations and Estimates**

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps. 20.6170 to US\$ 1.00, the noon buying rate for Mexican pesos on December 30, 2016, as published by the U.S. Federal Reserve Board in its H.10 Weekly Release of Foreign Exchange Rates. On April 12, 2017, this exchange rate was Ps. 18.7665 to US\$ 1.00. See **Item 3. Key Information Exchange Rate Information** for information regarding exchange rates since 2012.

To the extent estimates are contained in this annual report, we believe that such estimates, which are based on internal data, are reliable. Amounts in this annual report are rounded, and the totals may therefore not precisely equal the sum of the numbers presented.

Per capita growth rates and population data have been computed based upon statistics prepared by the *Instituto Nacional de Estadística, Geografía e Informática* of Mexico (National Institute of Statistics, Geography and Information, which we refer to as INEGI), the U.S. Federal Reserve Board and *Banco de México* (Bank of Mexico), local entities in each country and upon our estimates.

### **Forward-Looking Information**

This annual report contains words, such as believe, expect and anticipate and similar expressions that identify forward-looking statements. Use of these words reflects our views about future events and financial performance. Actual results could differ materially from those projected in these forward-looking statements as a result of various factors that may be beyond our control, including but not limited to effects on our company from changes in our relationship with or among our affiliated companies, movements in the prices of raw materials, competition, significant developments in Mexico and the other countries where we operate, our ability to successfully integrate mergers and acquisitions we have completed in recent years, international economic or political conditions or changes in our regulatory environment. Accordingly, we caution readers not to place undue reliance on these forward-looking statements. In any event, these statements speak only as of their respective dates, and we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

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**ITEMS 1-2. NOT APPLICABLE**

**ITEM 3. KEY INFORMATION**

**Selected Consolidated Financial Data**

This annual report includes (under Item 18) our audited consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016, 2015 and 2014. Our audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board ( IASB ).

Pursuant to IFRS, the information presented in this annual report presents financial information for 2016, 2015, 2014, 2013, and 2012 in nominal terms in Mexican pesos, taking into account local inflation of any hyperinflationary economic environment and converting from local currency to Mexican pesos using the official exchange rate at the end of the period published by the local central bank of each country categorized as a hyperinflationary economic environment (for this annual report, only Venezuela). Furthermore, for our Venezuelan entities we were able to convert local currency using one of the three legal exchange rates in that country. For further information, see Notes 3.3 and 3.4 to our audited consolidated financial statements. For each non-hyperinflationary economic environment, local currency is converted to Mexican pesos using the year-end exchange rate for assets and liabilities, the historical exchange rate for equity and the average exchange rate for the income statement. See Note 3.3 to our audited consolidated financial statements.

Our non-Mexican subsidiaries maintain their accounting records in the currency and in accordance with accounting principles generally accepted in the country where they are located. For presentation in our consolidated financial statements, we adjust these accounting records into IFRS and report in Mexican pesos under these standards.

Except when specifically indicated, information in this annual report on Form 20-F is presented as of December 31, 2016 and does not give effect to any transaction, financial or otherwise, subsequent to that date.

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The following table presents selected financial information of our company. This information should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements, including the notes thereto. The selected financial information contained herein is presented on a consolidated basis, and is not necessarily indicative of our financial position or results at or for any future date or period; see Note 3 to our audited consolidated financial statements for our significant accounting policies.

|   | 2016 <sup>(1)</sup>   | 2016 <sup>(2) (3)</sup> | Year Ended December 31, |                     | 2013 <sup>(5)</sup> | 2012 <sup>(6)</sup> |
|---|---|-------------------------|-------------------------|---------------------|---------------------|---------------------|
|   |   |                         | 2015 <sup>(2) (4)</sup> | 2014 <sup>(2)</sup> |                     |                     |
|   | (in millions of Mexican pesos or millions of U.S. dollars, except percentages and share and per share data) |                         |                         |                     |                     |                     |
| <b>Income Statement Data:</b>   |   |                         |                         |                     |                     |                     |
| Total revenues  | \$ 19,377   | Ps. 399,507             | Ps. 311,589             | Ps. 263,449         | Ps. 258,097         | Ps. 238,309         |
| Gross Profit  | 7,188   | 148,204                 | 123,179                 | 110,171             | 109,654             | 101,300             |
| Income before Income Taxes and Share of the Profit of Associates and Joint Ventures Accounted for Using the Equity Method | 1,385   | 28,556                  | 25,163                  | 23,744              | 25,080              | 27,530              |
| Income taxes  | 383   | 7,888                   | 7,932                   | 6,253               | 7,756               | 7,949               |
| Consolidated net income   | 1,318   | 27,175                  | 23,276                  | 22,630              | 22,155              | 28,051              |
| Controlling interest net income   | 1,025   | 21,140                  | 17,683                  | 16,701              | 15,922              | 20,707              |
| Non-controlling interest net income   | 293   | 6,035                   | 5,593                   | 5,929               | 6,233               | 7,344               |
| Basic controlling interest net income:  |   |                         |                         |                     |                     |                     |
| Per Series B Share  | 0.05  | 1.05                    | 0.88                    | 0.83                | 0.79                | 1.03                |
| Per Series D Share  | 0.06  | 1.32                    | 1.10                    | 1.04                | 1.00                | 1.30                |
| Diluted controlling interest net income:  |   |                         |                         |                     |                     |                     |
| Per Series B Share  | 0.05  | 1.05                    | 0.88                    | 0.83                | 0.79                | 1.03                |
| Per Series D Share  | 0.06  | 1.32                    | 1.10                    | 1.04                | 0.99                | 1.29                |
| Weighted average number of shares outstanding (in millions):  |   |                         |                         |                     |                     |                     |
| Series B Shares   | 9,246.4   | 9,246.4                 | 9,246.4                 | 9,246.4             | 9,246.4             | 9,246.4             |
| Series D Shares   | 8,644.7   | 8,644.7                 | 8,644.7                 | 8,644.7             | 8,644.7             | 8,644.7             |
| Allocation of earnings:   |   |                         |                         |                     |                     |                     |
| Series B Shares   | 46.11%  | 46.11%                  | 46.11%                  | 46.11%              | 46.11%              | 46.11%              |
| Series D Shares   | 53.89%  | 53.89%                  | 53.89%                  | 53.89%              | 53.89%              | 53.89%              |
| <b>Financial Position Data:</b>   |   |                         |                         |                     |                     |                     |
| Total assets  | \$ 26,465   | Ps. 545,623             | Ps. 409,332             | Ps. 376,173         | Ps. 359,192         | Ps. 295,942         |
| Current liabilities   | 4,185   | 86,289                  | 65,346                  | 49,319              | 48,869              | 48,516              |
| Long-term debt <sup>(7)</sup>   | 6,401   | 131,967                 | 85,969                  | 82,935              | 72,921              | 28,640              |
| Other long-term liabilities   | 1,998   | 41,197                  | 16,161                  | 13,797              | 14,852              | 8,625               |
| Capital stock   | 162   | 3,348                   | 3,348                   | 3,347               | 3,346               | 3,346               |
| Total equity  | 13,881  | 286,170                 | 241,856                 | 230,122             | 222,550             | 210,161             |
| Controlling interest  | 10,279  | 211,904                 | 181,524                 | 170,473             | 159,392             | 155,259             |
| Non-controlling interest  | 3,602   | 74,266                  | 60,332                  | 59,649              | 63,158              | 54,902              |
| <b>Other Information</b>  |   |                         |                         |                     |                     |                     |
| Depreciation  | \$ 586  | Ps. 12,076              | Ps. 9,761               | Ps. 9,029           | Ps. 8,805           | Ps. 7,175           |
| Capital expenditures <sup>(8)</sup>   | 1,075   | 22,155                  | 18,885                  | 18,163              | 17,882              | 15,560              |
| Gross margin <sup>(9)</sup>   | 37%   | 37%                     | 40%                     | 42%                 | 42%                 | 43%                 |

- (1) Translation to U.S. dollar amounts at an exchange rate of Ps. 20.6170 to US\$ 1.00 solely for the convenience of the reader.
- (2) The exchange rate used to translate our operations in Venezuela as of and for the year ended on December 31, 2016 was the DICOM rate of 673.76 bolivars to US\$ 1.00 compared to the year ended on December 31, 2015 which was the SIMADI rate of 198.70 bolivars to US\$ 1.00 and compared to the year ended on December 31, 2014 which was the SICAD-II rate of 49.99 bolivars to US\$ 1.00. See Note 3.3 of our audited consolidated financial statements.
- (3) Includes results of Vonpar, S.A. ( Vonpar or Group Vonpar ), from December 2016, and other business acquisitions. See **Item 4. Information on the Company The Company Corporate Background** and Note 4 to our audited consolidated financial statements.
- (4) Includes results of Socofar, S.A. ( Socofar or Group Socofar ), from October 2015, the Fuel Division from March 2015 and other business acquisitions. See **Item 4. Information on the Company The Company Corporate Background** and Note 4 of our audited consolidated financial statements.
- (5) Includes results of Coca-Cola FEMSA Philippines, Inc., or KOF Philippines (formerly Coca-Cola Bottlers Philippines, Inc.), from February 2013 using the equity method, Grupo Yoli, S.A. de C.V. ( Group Yoli ) from June 2013, Companhia Fluminense de Refrigereantes ( Companhia Fluminense ) from September 2013, Spaipa S.A. Indústria Brasileira de Bebidas ( Spaipa ) from November 2013 and other business acquisitions. See **Item 4. Information on the Company Coca-Cola FEMSA Corporate History**, Note 10 and Note 4 to our audited consolidated financial statements.
- (6) Includes results of Grupo Fomento Queretano, S.A.P.I. de C.V. ( Group Fomento Queretano ) from May 2012. See **Item 4. Information on the Company Coca-Cola FEMSA Corporate** and Note 4 to our audited consolidated financial statements.

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- (7) Includes long-term debt minus the current portion of long-term debt.
- (8) Includes investments in property, plant and equipment, intangible and other assets, net of cost of long lived assets sold, and write-off.
- (9) Gross margin is calculated by dividing gross profit by total revenues.

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We have historically paid dividends per BD Unit (including in the form of American Depositary Shares, or ADSs) approximately equal to or greater than 1% of the market price on the date of declaration, subject to changes in our results and financial position, including due to extraordinary economic events and to the factors described in **Item 3. Key Information Risk Factors** that affect our financial condition and liquidity. These factors may affect whether or not dividends are declared and the amount of such dividends. We do not expect to be subject to any contractual restrictions on our ability to pay dividends, although our subsidiaries may be subject to such restrictions. Because we are a holding company with no significant operations of our own, we will have distributable profits and cash to pay dividends only to the extent that we receive dividends from our subsidiaries. Accordingly, we cannot assure you that we will pay dividends or as to the amount of any dividends.

The following table sets forth for each year the nominal amount of dividends per share that we declared in Mexican peso and U.S. dollar amounts and their respective payment dates for the 2012 to 2016 fiscal years:

| <b>Date Dividend Paid</b>                       | <b>Fiscal Year with Respect to which Dividend was Declared</b> | <b>Aggregate Amount of Dividend Declared</b> | <b>Per Series B Share Dividend</b> | <b>Per Series B Share Dividend<sup>(7)</sup></b> | <b>Per Series D Share Dividend</b> | <b>Per Series D Share Dividend<sup>(7)</sup></b> |
|---|--|--|------------------------------------|--|------------------------------------|--|
| May 3, 2012 and                                 |  |  |                                    |  |                                    |  |
| November 6, 2012 <sup>(1)</sup>                 | 2011   | Ps. 6,200,000,000                            | Ps. 0.3092                         | \$ 0.0231  | Ps. 0.3865                         | \$ 0.0288  |
| May 3, 2012                                     |  |  | Ps. 0.1546                         | \$ 0.0119  | Ps. 0.1932                         | \$ 0.0149  |
| November 6, 2012                                |  |  | Ps. 0.1546                         | \$ 0.0119  | Ps. 0.1932                         | \$ 0.0149  |
| May 7, 2013 and                                 |  |  |                                    |  |                                    |  |
| November 7, 2013 <sup>(2)</sup>                 | 2012   | Ps. 6,684,103,000                            | Ps. 0.3333                         | \$ 0.0264  | Ps. 0.4166                         | \$ 0.0330  |
| May 7, 2013                                     |  |  | Ps. 0.1666                         | \$ 0.0138  | Ps. 0.2083                         | \$ 0.0173  |
| November 7, 2013                                |  |  | Ps. 0.1666                         | \$ 0.0126  | Ps. 0.2083                         | \$ 0.0158  |
| December 18, 2013 <sup>(3)</sup>                | 2012   | Ps. 6,684,103,000                            | Ps. 0.3333                         | \$ 0.0257  | Ps. 0.4166                         | \$ 0.0321  |
| May 7, 2015 and November 5, 2015 <sup>(4)</sup> | 2014   | Ps. 7,350,000,000                            | Ps. 0.3665                         | \$ 0.0230  | Ps. 0.4581                         | \$ 0.0287  |
| May 7, 2015                                     |  |  | Ps. 0.1833                         | \$ 0.0120  | Ps. 0.2291                         | \$ 0.0149  |
| November 5, 2015                                |  |  | Ps. 0.1833                         | \$ 0.0110  | Ps. 0.2291                         | \$ 0.01318                                       |
| May 5, 2016 and November 3, 2016 <sup>(5)</sup> | 2015   | Ps. 8,355,000,000                            | Ps. 0.4167                         | \$ 0.0225  | Ps. 0.5208                         | \$ 0.0282  |
| May 5, 2016                                     |  |  | Ps. 0.2083                         | \$ 0.0117  | Ps. 0.2604                         | \$ 0.0146  |
| November 3, 2016                                |  |  | Ps. 0.2083                         | \$ 0.0108  | Ps. 0.2604                         | \$ 0.0135  |
| May 5, 2017 and November 3, 2017 <sup>(6)</sup> | 2016   | Ps. 8,636,000,000                            | Ps. 0.4307                         | N/A  | Ps. 0.5383                         | N/A  |
| May 5, 2017                                     |  |  | Ps. 0.2153                         | N/A  | Ps. 0.2692                         | N/A  |
| November 3, 2017                                |  |  | Ps. 0.2153                         | N/A  | Ps. 0.2692                         | N/A  |

- (1) The dividend payment for 2011 was divided into two equal payments in Mexican pesos. The first payment was payable on May 3, 2012 with a record date of May 2, 2012, and the second payment was payable on November 6, 2012 with a record date of November 5, 2012.
- (2) The dividend payment for 2012 was divided into two equal payments in Mexican pesos. The first payment was payable on May 7, 2013 with a record date of May 6, 2013, and the second payment was payable on November 7, 2013 with a record date of November 6, 2013.
- (3) The dividend payment declared in December 2013 was payable on December 18, 2013 with a record date of December 17, 2013.
- (4) The dividend payment for 2014 was divided into two equal payments in Mexican pesos. The first payment was payable on May 7, 2015 with a record date of May 6, 2015, and the second payment was payable on November 5, 2015 with a record date of November 4, 2015. The dividend payment for 2014 was derived from the balance of the net tax profit account for the fiscal year ended December 31, 2013. See Note 22 to our financial statements.
- (5) The dividend payment for 2015 was divided into two equal payments. The first payment was payable on May 5, 2016 with a record date of May 4, 2016, and the second payment was payable on November 3, 2016 with a record date of November 1, 2016. The dividend payment for 2015 was derived from the balance of the net tax profit account for the fiscal year ended December 31, 2013. See Note 22 to our financial statements.
- (6) The dividend payment for 2016 will be divided into two equal payments. The first payment will become payable on May 5, 2017 with a record date of May 4, 2017, and the second payment will become payable on November 3, 2017 with a record date of November 1, 2017. The dividend payment for 2016 was derived from the balance of the net tax profit account for the fiscal year ended December 31, 2013. See Note 22 to our financial statements.

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(7) Translations to U.S. dollars are based on the exchange rates on the dates the payments were made.

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At the annual ordinary general shareholders meeting, or AGM, the board of directors submits the audited consolidated financial statements of our company for the previous fiscal year, together with a report thereon by the board of directors. Once the holders of Series B Shares have approved the audited consolidated financial statements, they determine the allocation of our net profits for the preceding year. Mexican law requires the allocation of at least 5% of net profits to a legal reserve, which is not subsequently available for distribution, until the amount of the legal reserve equals 20% of our paid in capital stock. As of the date of this report, the legal reserve of our company is fully constituted. Thereafter, the holders of Series B Shares may determine and allocate a certain percentage of net profits to any general or special reserve, including a reserve for open-market purchases of our shares. The remainder of net profits is available for distribution in the form of dividends to our shareholders. Dividends may only be paid if net profits are sufficient to offset losses from prior fiscal years.

Our bylaws provide that dividends will be allocated among the outstanding and fully paid shares at the time a dividend is declared in such manner that each Series D-B Share and Series D-L Share receives 125% of the dividend distributed in respect of each Series B Share. Holders of Series D-B Shares and Series D-L Shares are entitled to this dividend premium in connection with all dividends paid by us other than payments in connection with the liquidation of our company.

Subject to certain exceptions contained in the deposit agreement dated May 11, 2007, among FEMSA, The Bank of New York Mellon (formerly The Bank of New York), as ADS depository, and holders and beneficial owners from time to time of our ADSs, evidenced by American Depositary Receipts, or ADRs, any dividends distributed to holders of our ADSs will be paid to the ADS depository in Mexican pesos and will be converted by the ADS depository into U.S. dollars. As a result, restrictions on conversion of Mexican pesos into foreign currencies may affect the ability of holders of our ADSs to receive U.S. dollars, and exchange rate fluctuations may affect the U.S. dollar amount actually received by holders of our ADSs.

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The following table sets forth, for the periods indicated, the high, low, average and year-end noon exchange rate, expressed in Mexican pesos per US\$ 1.00, as published by the Federal Reserve Bank of New York. The rates have not been restated in constant currency units and therefore represent nominal historical figures.

| Year ended December 31, | Exchange Rate |       |                        | Year End |
|-------------------------|---------------|-------|------------------------|----------|
|                         | High          | Low   | Average <sup>(1)</sup> |          |
| 2012                    | 14.37         | 12.63 | 13.14                  | 12.96    |
| 2013                    | 13.43         | 11.98 | 12.86                  | 13.10    |
| 2014                    | 14.79         | 12.85 | 13.35                  | 14.75    |
| 2015                    | 17.36         | 14.56 | 15.97                  | 17.20    |
| 2016                    | 20.84         | 17.19 | 18.70                  | 20.62    |

(1) Average month-end rates.

|                | Exchange Rate |           |            |
|----------------|---------------|-----------|------------|
|                | High          | Low       | Period End |
| <b>2015:</b>   |               |           |            |
| First Quarter  | Ps. 15.58     | Ps. 14.56 | Ps. 15.25  |
| Second Quarter | 15.69         | 14.80     | 15.69      |
| Third Quarter  | 17.10         | 15.67     | 16.90      |
| Fourth Quarter | 17.36         | 16.37     | 17.20      |
| <b>2016:</b>   |               |           |            |
| First Quarter  | Ps. 19.19     | Ps. 17.21 | Ps. 17.21  |
| Second Quarter | 19.15         | 17.19     | 18.49      |
| Third Quarter  | 19.86         | 17.98     | 19.34      |
| Fourth Quarter | 20.84         | 18.44     | 20.62      |
| October        | 19.34         | 18.49     | 18.79      |
| November       | 20.84         | 18.44     | 20.46      |
| December       | 20.74         | 20.22     | 20.62      |
| <b>2017:</b>   |               |           |            |
| January        | Ps. 21.89     | Ps. 20.75 | Ps. 20.84  |
| February       | 20.82         | 19.74     | 20.00      |
| March          | 19.93         | 18.67     | 18.83      |
| First Quarter  | 21.89         | 18.67     | 18.83      |



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**RISK FACTORS**

**Risks Related to Our Company**

**Coca-Cola FEMSA**

*Coca-Cola FEMSA's business depends on its relationship with The Coca-Cola Company, and changes in this relationship may adversely affect its business, financial condition, results of operations and prospects.*

Substantially all of Coca-Cola FEMSA's sales are derived from sales of *Coca-Cola* trademark beverages. Coca-Cola FEMSA produces, markets, sells and distributes *Coca-Cola* trademark beverages through standard bottler agreements in the territories where it operates. Coca-Cola FEMSA is required to purchase concentrate for all *Coca-Cola* trademark beverages from companies designated by The Coca-Cola Company, which price may be unilaterally determined from time to time by The Coca-Cola Company, in all such territories. Coca-Cola FEMSA is also required to purchase sweeteners and other raw materials only from companies authorized by The Coca-Cola Company. **See Item 4. Information on the Company Coca-Cola FEMSA Coca-Cola FEMSA's Territories.** Pursuant to Coca-Cola FEMSA's bottler agreements and as a shareholder, The Coca-Cola Company has the right to participate in the process for making certain decisions related to Coca-Cola FEMSA's business.

In addition, under Coca-Cola FEMSA's bottler agreements, Coca-Cola FEMSA is prohibited from bottling or distributing any other beverages without The Coca-Cola Company's authorization or consent, and Coca-Cola FEMSA may not transfer control of the bottler rights of any of its territories without prior consent from The Coca-Cola Company.

The Coca-Cola Company makes significant contributions to Coca-Cola FEMSA's marketing expenses, although it is not required to contribute a particular amount. Accordingly, The Coca-Cola Company may discontinue or reduce such contributions at any time.

Coca-Cola FEMSA depends on The Coca-Cola Company to continue with Coca-Cola FEMSA's bottler agreements. Coca-Cola FEMSA's 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 the applicable agreement. In addition, these agreements generally may be terminated in the case of material breach. Termination of any such bottler agreement would prevent Coca-Cola FEMSA from selling *Coca-Cola* trademark beverages in the affected territory. The foregoing and any other adverse changes in Coca-Cola FEMSA's relationship with The Coca-Cola Company would have an adverse effect on Coca-Cola FEMSA's business, financial condition, results of operations and prospects.

*The Coca-Cola Company has substantial influence on the conduct of Coca-Cola FEMSA's business, which may result in Coca-Cola FEMSA taking actions contrary to the interests of its shareholders other than The Coca-Cola Company.*

The Coca-Cola Company has substantial influence on the conduct of Coca-Cola FEMSA's business. As of April 7, 2017, The Coca-Cola Company indirectly owned 28.1% of Coca-Cola FEMSA's outstanding capital stock, representing 37.0% of Coca-Cola FEMSA's capital stock with full voting rights. The Coca-Cola Company is entitled to appoint five of Coca-Cola FEMSA's maximum of 21 directors and the vote of at least two of them is required to approve certain actions by Coca-Cola FEMSA's board of directors. As of April 7, 2017, we indirectly owned 47.9% of Coca-Cola FEMSA's outstanding capital stock, representing 63.0% of Coca-Cola FEMSA's capital stock with full voting rights. We are entitled to appoint 13 of Coca-Cola FEMSA's maximum of 21 directors and all of its executive officers. We and the Coca-Cola Company together, or only we in certain circumstances, have the power to determine the outcome of all actions requiring approval by Coca-Cola FEMSA's board of directors, and we and The Coca-Cola Company together, or only we in certain circumstances, have the power to determine the outcome of all actions requiring approval of our shareholders. The interests of The Coca-Cola Company may be different from the interests of Coca-Cola FEMSA's other shareholders, which may result in Coca-Cola FEMSA taking actions contrary to the interests of such other shareholders.

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***Changes in consumer preferences and public concern about health related issues could reduce demand for some of Coca-Cola FEMSA's products.***

The non-alcoholic beverage industry is evolving mainly as a result of changes in consumer preferences and regulatory actions. There have been different plans and actions adopted in recent years by governmental authorities in some of the countries where Coca-Cola FEMSA operates, including an increase in taxes or the imposition of new taxes on the sale of beverages containing certain sweeteners, and other regulatory measures, such as restrictions on advertising for some of Coca-Cola FEMSA's products. Moreover, researchers, health advocates and dietary guidelines are encouraging consumers to reduce their consumption of certain types of beverages sweetened with sugar and High Fructose Corn Syrup, or HFCS. In addition, concerns over the environmental impact of plastic may reduce the consumption of Coca-Cola FEMSA's products sold in plastic bottles or result in additional taxes that would adversely affect consumer demand. Increasing public concern about these issues, new or increased taxes, other regulatory measures or Coca-Cola FEMSA's failure to meet consumers' preferences, could reduce demand for some of Coca-Cola FEMSA's products, which would adversely affect its business, financial condition, results of operations and prospects.

***The reputation of Coca-Cola trademarks and trademark infringement could adversely affect Coca-Cola FEMSA's business.***

Substantially all of Coca-Cola FEMSA's sales are derived from sales of Coca-Cola trademark beverages owned by The Coca-Cola Company. Maintenance of the reputation and intellectual property rights of these trademarks is essential to Coca-Cola FEMSA's ability to attract and retain retailers and consumers and is a key driver for its success. Failure to maintain the reputation of Coca-Cola trademarks and/or to effectively protect these trademarks could have a material adverse effect on Coca-Cola FEMSA's business, financial condition, results of operations and prospects.

***If Coca-Cola FEMSA is unable to protect its information systems against service interruption, misappropriation of data or breaches of security, Coca-Cola FEMSA's operations could be disrupted, which could have a material adverse effect on its business, financial condition, results of operations and prospects.***

Coca-Cola FEMSA relies on networks and information systems and other technology, or information systems, including the Internet and third-party hosted platforms and services to support a variety of business processes and activities, including procurement and supply chain, manufacturing, distribution, invoicing and collection of payments. Coca-Cola FEMSA uses information systems to process financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting and legal and tax requirements. Because information systems are critical to many of Coca-Cola FEMSA's operating activities, Coca-Cola FEMSA's business may be impacted by system shutdowns, service disruptions or security breaches. In addition, such incidents could result in unauthorized disclosure of material confidential information. Coca-Cola FEMSA could be required to spend significant financial and other resources to remedy the damage caused by a security breach or to repair or replace networks and information systems. Any severe damage, disruption or shutdown in Coca-Cola FEMSA's information systems could have a material adverse effect on Coca-Cola FEMSA's business, financial condition, results of operations and prospects.

***Negative or inaccurate information on social media could adversely affect Coca-Cola FEMSA's reputation.***

In recent years, there has been a marked increase in the use of social media and similar platforms, including weblogs (blogs), social media websites, and other forms of Internet-based communications which allow individual access to a broad audience of consumers and other interested persons. Negative or inaccurate information concerning or affecting Coca-Cola FEMSA or the Coca-Cola trademarks may be posted on such platforms at any time. This information may harm our reputation without affording Coca-Cola FEMSA an opportunity for redress or correction, which could in turn have a material adverse effect on Coca-Cola FEMSA's business, financial condition, results of operations and prospects.

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***Competition could adversely affect Coca-Cola FEMSA's business, financial condition, results of operations and prospects.***

The beverage industry in the territories where Coca-Cola FEMSA operates is highly competitive. Coca-Cola FEMSA faces competition from other bottlers of sparkling beverages, such as *Pepsi* trademark products and other bottlers and distributors of local beverage brands, and from producers of low-cost beverages or B brands. Coca-Cola FEMSA also competes in beverage categories other than sparkling beverages, such as water, juice-based beverages, teas, sport drinks and value-added dairy products. Coca-Cola FEMSA expects that it will continue to face strong competition in its beverage categories in all of its territories and anticipate that existing or new competitors may broaden their product lines and extend their geographic scope.

Although competitive conditions are different in each of Coca-Cola FEMSA's territories, Coca-Cola FEMSA competes mainly in terms of price, packaging, effective promotional activities, access to retail outlets and sufficient shelf space, customer service, product innovation and product alternatives and the ability to identify and satisfy consumer preferences. See **Item 4. Information on the Company Coca-Cola FEMSA Competition**. Lower pricing and activities by Coca-Cola FEMSA's competitors and changes in consumer preferences may have an adverse effect on Coca-Cola FEMSA's business, financial condition, results of operations and prospects.

***Water shortages or any failure to maintain existing concessions could adversely affect Coca-Cola FEMSA's business, financial condition, results of operations and prospects.***

Water is an essential component of all of Coca-Cola FEMSA's products. Coca-Cola FEMSA obtains water from various sources in its territories, including springs, wells, rivers and municipal and state water companies pursuant to either concessions granted by governments in its various territories (including governments at the federal, state or municipal level) or pursuant to contracts.

Coca-Cola FEMSA obtains the vast majority of the water used in its production from municipal utility companies and pursuant to concessions to use wells, which are generally granted based on studies of the existing and projected groundwater supply. Coca-Cola FEMSA's existing water concessions or contracts to obtain water may be terminated by governmental authorities under certain circumstances and their renewal depends on several factors, including having paid all fees in full, having complied with applicable laws and obligations and receiving approval for renewal from local and/or federal water authorities. See **Item 4. Information on the Company Regulatory Matters Water Supply**. In some of Coca-Cola FEMSA's other territories, Coca-Cola FEMSA's existing water supply may not be sufficient to meet its future production needs, and the available water supply may be adversely affected by shortages or changes in governmental regulations and environmental changes.

Water supply in the Sao Paulo region in Brazil has been reduced in recent years by low rainfall, which has affected the main water reservoir that serves the greater Sao Paulo area (Cantareira). Although Coca-Cola FEMSA's Jundiá plant does not obtain water from this water reservoir, water shortages or changes in governmental regulations aimed at rationalizing water in such region could affect its water supply in its Jundiá plant.

We cannot assure you that water will be available in sufficient quantities to meet Coca-Cola FEMSA's future production needs or will prove sufficient to meet its water supply needs. Continued water scarcity in the regions where Coca-Cola FEMSA operates may adversely affect its business, financial condition, results of operations and prospects.

***Increases in the prices of raw materials would increase Coca-Cola FEMSA's cost of goods sold and may adversely affect its business, financial condition, results of operations and prospects.***

In addition to water, Coca-Cola FEMSA's most significant raw materials are (i) concentrate, which it acquires from affiliates of The Coca-Cola Company, (ii) sweeteners and (iii) packaging materials.

Prices for *Coca-Cola* trademark beverages concentrate are determined by The Coca-Cola Company as a percentage of the weighted average retail price in local currency, net of applicable taxes. The Coca-Cola Company has the right to unilaterally change concentrate prices or change the manner in which such prices are calculated. In the past, The Coca-Cola Company has increased concentrate prices for *Coca-Cola* trademark beverages in some of the countries where Coca-Cola FEMSA operates. Coca-Cola FEMSA may not be successful in negotiating or implementing measures to mitigate the negative effect this may have in the pricing of its products or its results.

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The prices for Coca-Cola FEMSA's other raw materials are driven by market prices and local availability, the imposition of import duties and restrictions and fluctuations in exchange rates. Coca-Cola FEMSA is also required to meet all of its supply needs (including sweeteners and packaging materials) from suppliers approved by The Coca-Cola Company, which may limit the number of suppliers available to it. Coca-Cola FEMSA's sales prices are denominated in the local currency in each country where it operates, while the prices of certain materials, including those used in the bottling of its products, mainly resin, preforms to make plastic bottles, finished plastic bottles, aluminum cans, HFCS and certain sweeteners, are paid in, or determined with reference to, the U.S. dollar, and therefore may increase if the U.S. dollar appreciates against the applicable local currency. Coca-Cola FEMSA cannot anticipate whether the U.S. dollar will appreciate or depreciate with respect to such local currencies in the future. **See Item 4. Information on the Company Coca-Cola FEMSA Raw Materials.**

Coca-Cola FEMSA's most significant packaging raw material costs arise from the purchase of resin, the price of which is related to crude oil prices and global resin supply. Crude oil prices have a cyclical behavior and are determined with reference to the U.S. dollar; therefore, high currency volatility may affect Coca-Cola FEMSA's average price for resin in local currencies. Since 2010, international sugar prices have been volatile due to various factors, including shifting demand, availability and climate issues affecting production and distribution. In all of the countries where Coca-Cola FEMSA operates, other than Brazil, sugar prices are subject to local regulations and other barriers to market entry that cause it to purchase sugar above international market prices. **See Item 4. Information on the Company Coca-Cola FEMSA Raw Materials.** We cannot assure you that Coca-Cola FEMSA's raw material prices will not further increase in the future or that Coca-Cola FEMSA will be successful in mitigating any such increase through derivative instruments or otherwise. Increases in the prices of raw materials would increase Coca-Cola FEMSA's cost of goods sold and adversely affect its business, financial condition, results of operations and prospects.

*Taxes could adversely affect Coca-Cola FEMSA's business, financial condition, results of operations and prospects.*

The countries where Coca-Cola FEMSA operates may adopt new tax laws or modify existing tax laws to increase taxes applicable to its business or products. Coca-Cola FEMSA's products are subject to certain taxes in many of the countries where it operates, which impose taxes on sparkling beverages. **See Item 4. Information on the Company Regulatory Matters Taxation of Sparkling Beverages.** The imposition of new taxes increases in existing taxes, or changes in the interpretation of tax laws and regulation by tax authorities may have a material adverse effect on Coca-Cola FEMSA's business, financial condition, results of operations and prospects.

Tax legislation in some of the countries where Coca-Cola FEMSA operates has recently been subject to major changes. **See Item 4. Information on the Company Regulatory Matters Tax Reforms.** We cannot assure you that these reforms or other reforms adopted by governments in the countries where Coca-Cola FEMSA operates will not have a material adverse effect on its business, financial condition, results of operations and prospects.

*Regulatory developments may adversely affect Coca-Cola FEMSA's business, financial condition, results of operations and prospects.*

Coca-Cola FEMSA is subject to several laws and regulations in each of the territories where it operates. The principal areas in which Coca-Cola FEMSA is subject to laws and regulations are water, environment, labor, taxation, health and antitrust. Laws and regulations can also affect Coca-Cola FEMSA's ability to set prices for its products. **See Item 4. Information on the Company Regulatory Matters.** Changes in existing laws and regulations, the adoption of new laws or regulations, or a stricter interpretation or enforcement thereof in the countries where Coca-Cola FEMSA operates may increase its operating and compliance costs or impose restrictions on its operations which, in turn, may adversely affect its financial condition, business, results of operations and prospects. In particular, environmental standards are becoming more stringent in several of the countries where Coca-Cola FEMSA operates. There is no assurance that Coca-Cola FEMSA will be able to comply with changes in environmental laws and regulations within the timelines established by the relevant regulatory authorities. **See Item 4. Information on the Company Regulatory Matters Environmental Matters.**

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Voluntary price restraints or statutory price controls have been imposed historically in several of the countries where Coca-Cola FEMSA operates. Currently, there are no price controls on Coca-Cola FEMSA's products in any of the territories where it has operations, except for those in Argentina, where authorities directly supervise six of Coca-Cola FEMSA's products sold through supermarkets as a measure to control inflation, and Venezuela, where price controls have been imposed on certain products, including bottled water, and a limit has been imposed on profits earned on the sale of goods, including Coca-Cola FEMSA's products, in an effort to seek price stability of, and equal access to, goods and services. If Coca-Cola FEMSA exceeds such limit on profits, it may be forced to maintain or reduce the prices of its products in Venezuela, which would in turn adversely affect its business, financial condition, results of operations and prospects. In addition, consumer protection laws in Venezuela are subject to continuing review and changes, and any such changes may have an adverse impact on Coca-Cola FEMSA. We cannot assure you that existing or future laws and regulations in the countries where Coca-Cola FEMSA operates relating to goods and services (in particular, laws and regulations imposing statutory price controls) will not affect its products, or that Coca-Cola FEMSA will not need to implement voluntary price restraints, which could have a negative effect on its business, financial condition, results of operations and prospects. **See Item 4. Information on the Company Regulatory Matters Price Controls.**

*Unfavorable outcome of legal proceedings could have an adverse effect on Coca-Cola FEMSA's business, financial condition, results of operations and prospects.*

Coca-Cola FEMSA's operations have from time to time been and may continue to be subject to investigations and proceedings by antitrust authorities relating to alleged anticompetitive practices. Coca-Cola FEMSA also has been subject to investigations and proceedings on tax, consumer protection, environmental and labor matters. We cannot assure you that these investigations and proceedings will not have an adverse effect on Coca-Cola FEMSA's business, financial condition, results of operations and prospects. **See Item 8. Financial Information Legal Proceedings Coca-Cola FEMSA.**

*Weather conditions may adversely affect Coca-Cola FEMSA's business, financial condition, results of operations and prospects.*

Lower temperatures, higher rainfall and other adverse weather conditions such as typhoons and hurricanes may negatively impact consumer patterns, which may result in reduced sales of Coca-Cola FEMSA's beverage offerings. Additionally, such adverse weather conditions may affect plant installed capacity, road infrastructure and points of sale in the territories where Coca-Cola FEMSA operates and limit its ability to produce, sell and distribute its products, thus affecting its business, financial condition, results of operations and prospects.

*Coca-Cola FEMSA may not be able to successfully integrate its acquisitions and achieve the expected operational efficiencies or synergies.*

Coca-Cola FEMSA has and it may continue to acquire bottling operations and other businesses. Key elements to achieving the benefits and expected synergies of its acquisitions and mergers are the integration of acquired or merged businesses' operations into Coca-Cola FEMSA's own in a timely and effective manner and the retention of qualified and experienced key personnel. Coca-Cola FEMSA may incur unforeseen liabilities in connection with acquiring, taking control of, or managing bottling operations and other businesses and may encounter difficulties and unforeseen or additional costs in restructuring and integrating them into its operating structure. We cannot assure you that these efforts will be successful or completed as expected by Coca-Cola FEMSA, and Coca-Cola FEMSA's business, financial condition, results of operations and prospects could be adversely affected if it is unable to do so.

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**FEMSA Comercio**

***Competition from other retailers in the markets where FEMSA Comercio operates could adversely affect its business, financial condition, results of operations and prospects.***

The retail sector is highly competitive in the markets where FEMSA Comercio operates. The Retail Division participates in the retail sector primarily through its OXXO stores, which face competition from small-format stores like 7-Eleven, Circle K stores and other numerous chains of retailers across Mexico, and from other regional small-format retailers to small informal neighborhood stores. In particular, small informal neighborhood stores can sometimes avoid regulatory oversight and taxation, enabling them to sell certain products at prices below average market prices. In addition, these small informal neighborhood stores could improve their technological capabilities so as to enable credit card transactions and electronic payment of utility bills, which would diminish one of the Retail Division's competitive advantages.

In the pharmacy sector, FEMSA Comercio participates through the Health Division in Mexico, Chile and Colombia. In Mexico, it faces competition from other drugstore chains such as Farmacias Guadalajara, Farmacias del Ahorro and Farmacias Benavides, as well as independent pharmacies, supermarkets and other informal neighborhood drugstores. In Chile, relevant competitors are chain drugstores such as Farmacias Ahumada and Salcobrand, while in Colombia, the most relevant competitors are La Rebaja and Copidrogas.

The Retail Division and the Health Division may face additional competition from new market participants. The increase in competition may limit the number of new store locations available and could require FEMSA Comercio to modify its product offering or pricing scheme. As a consequence, future competition may affect the financial situation, operation results and prospects of the Retail Division and the Health Division.

For the Fuel Division, the opening of the Mexican fuel distribution market is expected to alter the competitive dynamics of the industry. The consolidation process, expected to take place as large companies and international competitors enter the market may occur rapidly and materially alter the market dynamics in Mexico. Currently, the Fuel Division faces competition from small, independently owned and operated service stations, as well as from regional chains such as Corpogas, Hidrosina, Petro-7 and Orsan.

***FEMSA Comercio's points of sale performance may be adversely affected by changes in economic conditions in the markets where it operates.***

The markets in which FEMSA Comercio operates are highly sensitive to economic conditions, because a decline in consumer purchasing power is often a consequence of an economic slowdown which in turn results in a decline in the overall consumption of main product categories. During periods of economic slowdown, FEMSA Comercio's points of sale may experience a decline in same-store traffic and average ticket per customer, which may result in a decline in overall performance.

***FEMSA Comercio's business expansion strategy and entry into new markets and retail formats may lead to decreased profit margins.***

FEMSA Comercio has recently entered into new markets through the acquisition of other small-format retail businesses such as quick-service restaurants. In recent years, the Retail Division and the Health Division have continued with this strategy. These new businesses are currently less profitable than OXXO, and might therefore marginally dilute FEMSA Comercio margins in the short to medium term.

***Regulatory changes in Mexico may adversely affect FEMSA Comercio's business.***

In the markets where it operates, FEMSA Comercio is subject to regulation in areas such as labor, taxation, zoning, operations and related local permits and health and safety regulations. Changes in existing laws and regulations, the adoption of new laws or regulations, or a stricter interpretation or enforcement thereof in the countries where FEMSA Comercio operates may increase its operating and compliance costs or impose restrictions on its operations which, in turn, may adversely affect the financial situation, operation results and prospects of FEMSA Comercio's business. In addition, changes in current laws and regulations may negatively impact customer traffic, revenues, operational costs and commercial practices, which may have an adverse effect on the financial situation, operation results and prospects of FEMSA Comercio.

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***FEMSA Comercio s business depends heavily on information technology and a failure, interruption, or breach of its IT systems could adversely affect it.***

FEMSA Comercio s businesses rely heavily on advanced information technology (which we refer to as IT) systems to effectively manage its data, communications, connectivity, and other business processes. FEMSA Comercio invests aggressively in IT to maximize its value generation potential. The development of IT systems, hardware and software needs to keep pace with the businesses growth due to the high speed at which the division adds new services and products to its commercial offerings. If these systems become obsolete or if the planning for future IT investments is inadequate, FEMSA Comercio businesses could be adversely affected.

Although FEMSA Comercio constantly improves and protects its IT systems with advanced security measures, they may still be subject to defects, interruptions, or security breaches such as viruses or data theft. Such a defect, interruption, or breach could adversely affect the financial situation, operation results and prospects of FEMSA Comercio.

***FEMSA Comercio s business may be adversely affected by an increase in the price of electricity in the markets where it operates.***

The performance of FEMSA Comercio s points of sale would be adversely affected by increases in the price of utilities on which the stores and stations depend, such as electricity. As an example, given the relevance of the Mexican market, the price of electricity in Mexico has generally remained stable or decreased in recent years, except for 2016, when the price gradually increased. Electricity prices could potentially increase further as a result of inflation, shortages, interruptions in supply, or other reasons, and such an increase could adversely affect the financial situation, operation results and prospects of FEMSA Comercio s business.

***Taxes could adversely affect FEMSA Comercio s business.***

The imposition of new taxes or increases in existing taxes, or changes in the interpretation of tax laws and regulations by tax authorities, may have a material adverse effect on the financial situation, operation results and prospects of FEMSA Comercio s business.

***The Retail Division may not be able to maintain its historic growth rate.***

The Retail Division increased the number of OXXO stores at a compound annual growth rate of 9.5% from 2012 to 2016. The growth in the number of OXXO stores has driven growth in total revenue and results at the Retail Division over the same period. As the overall number of stores increases, percentage growth in the number of OXXO stores is likely to slow. In addition, as small-format store penetration in Mexico grows, the number of viable new store locations may decrease, and new store locations may be less favorable in terms of same-store sales, average ticket and store traffic. Thus, our future results and financial situation may not be consistent with prior periods and may be characterized by lower growth rates in terms of total revenue and results of operations. In Colombia, OXXO stores may not be able to achieve or maintain historic growth rates like those in Mexico. We cannot assure that the revenues and cash flows of the Retail Division that come from future retail stores will be comparable with those generated by existing retail stores.

***The Health Division s sales may be affected by a material change in institutional sale trends in some of the markets where it operates.***

In some of the markets where the Health Division operates, sales are highly dependent of institutional sales, as well as traditional open market sales. The institutional market involves public and private health care providers, and the performance of the Health Division could be affected by its ability to maintain and grow its client base.

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### ***The Health Division's performance may be affected by contractual conditions with its suppliers.***

The Health Division, especially in Mexico, acquires the majority of its inventories and healthcare products from a limited number of suppliers. Its ability to maintain favorable conditions in its current price and service agreements could potentially affect the Health Division's operating and financial performance.

### ***Energy regulatory changes may impact fuel prices and therefore adversely affect the Fuel Division's business.***

The Fuel Division mainly sells gasoline and diesel through owned or leased retail service stations. Until last year, the prices of these products were regulated in Mexico by a government agency named *Comisión Reguladora de Energía* (Energy Regulatory Commission). Starting in 2017, fuel prices are gradually beginning to follow the dynamics of the international fuel market, in accordance with the regulatory framework, which may also adversely affect the financial situation, operation results and prospects of the Fuel Division's business.

### ***The Fuel Division's performance may be affected by changes in commercial terms with suppliers, or disruptions to the industry supply chain***

The Fuel Division mainly purchases gasoline and diesel for its operations in Mexico. The fuel market in Mexico is currently undergoing structural changes that should gradually increase the number of suppliers as well as liberalize retail prices to consumers. As the industry evolves, commercial terms for the Fuel Division could deteriorate in the future, and potential disruptions to the order of the supply chain to our gas stations could adversely impact the financial performance and prospects of the Fuel Division.

### ***The Fuel Division's business could be affected by new safety and environmental regulations enforced by government, global environmental regulations and new energy technologies.***

Federal, state and municipal laws and regulations for the installation and operation of service stations are becoming more stringent. Compliance with these laws and regulations is often difficult and costly. Global trends to reduce the consumption of fossil fuels through incentives and taxes could push sales of these fuels at service stations to slow or decrease in the future and automotive technologies, including efficiency gains in traditional fuel vehicles and increased popularity of alternative fuel vehicles, such as electric and liquefied petroleum gas (LPG) vehicles, have caused a significant reduction in fuel consumption globally. Other new technologies could further reduce the sale of traditional fuels, all of which could adversely affect operation results and financial situation of the Fuel Division.

## **Risks Related to Mexico and the Other Countries Where We Operate**

### ***Adverse economic conditions in Mexico may adversely affect our financial position and results.***

We are a Mexican corporation and our Mexican operations are our single most important geographic territory. For the year ended December 31, 2016, 64% of our consolidated total revenues were attributable to Mexico. During 2013, 2014 and 2015 the Mexican gross domestic product, or GDP, increased by approximately 1.4%, 2.3% and 2.6%, respectively, and in 2016 it increased by approximately 2.3% on an annualized basis compared to 2015, due to stronger performance in the services and primary sectors, which were partially offset by lower volumes in the oil and gas industries. We cannot assure that such conditions will not slow down in the future or will not have a material adverse effect on our business, financial condition, results of operations and prospects going forward. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in, or delays in the recovery of, the U.S. economy may hinder any recovery in Mexico. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on our results.

Our business may be significantly affected by the general condition of the Mexican economy, or by the rate of inflation in Mexico, interest rates in Mexico and exchange rates for, or exchange controls affecting, the Mexican peso. Decreases in the growth rate of the Mexican economy, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our products, lower real pricing of our products or a shift to lower margin products. Because a large percentage of our costs and expenses are fixed we may not be able to reduce costs and expenses upon the occurrence of any of these events and our profit margins may suffer as a result.



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In addition, an increase in interest rates in Mexico would increase the cost of our debt and would cause an adverse effect on our financial position and results. Mexican peso-denominated debt (including currency hedges) constituted 36.4% of our total debt as of December 31, 2016.

***Depreciation of the Mexican peso and of our other local currencies relative to the U.S. dollar could adversely affect our financial position and results.***

Depreciation of the Mexican peso and of our other local currencies relative to the U.S. dollar increases the cost of a portion of the raw materials we acquire, the price of which is paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars, and thereby negatively affects our financial position and results. A severe devaluation or depreciation of the Mexican peso may result in disruption of the international foreign exchange markets and may limit our ability to transfer or to convert Mexican pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our U.S. dollar-denominated debt or obligations in other currencies. The Mexican peso is a free-floating currency and as such, it experiences exchange rate fluctuations relative to the U.S. dollar over time. During 2016, the Mexican peso depreciated relative to the U.S. dollar by approximately 19.9% compared to 2015. During 2015, 2014 and 2013, the Mexican peso experienced fluctuations relative to the U.S. dollar consisting of 16.6% of depreciation, 12.6% of depreciation and 1.0% of depreciation respectively, compared to the years of 2014, 2013 and 2012. Through April 12, 2017, the Mexican peso has appreciated 9.0% since December 31, 2016.

While the Mexican government does not currently restrict, and since 1982 has not restricted, the right or ability of Mexican or foreign persons or entities to convert Mexican pesos into U.S. dollars or to transfer other currencies out of Mexico, the Mexican government could impose restrictive exchange rate policies in the future, as it has done in the past. Currency fluctuations may have an adverse effect on our financial position, results and cash flows in future periods.

When the financial markets are volatile, as they have been in recent periods, our results may be substantially affected by variations in exchange rates and commodity prices, and to a lesser degree, interest rates. These effects include foreign exchange gain and loss on assets and liabilities denominated in U.S. dollars, fair value gain and loss on derivative financial instruments, commodities prices and changes in interest income and interest expense. These effects can be much more volatile than our operating performance and our operating cash flows.

***Political events in Mexico could adversely affect our operations.***

Mexican political events may significantly affect our operations. The most recent presidential and congressional elections took place in July 2012 and 2015, respectively. Enrique Peña Nieto, a member of the Institutional Revolutionary Party (*Partido Revolucionario Institucional* or PRI), was elected President of Mexico and took office on December 1, 2012. Mexico's next presidential election will be in July 2018. The Mexican president strongly influences new policies and governmental actions regarding the Mexican economy, and the new administration could implement substantial changes in law, policy and regulations in Mexico, which could negatively affect our business, financial condition, results of operations and prospects. In response to these actions, opponents of the administration could react with, among other things, riots, protests and looting that could negatively affect our operations. For example, the Mexican Congress has approved a number of structural reforms intended to modernize certain sectors of and foster growth in the Mexican economy, which continue to face implementation challenges.

Furthermore, no single party has a majority in the Senate or the *Cámara de Diputados* (House of Representatives), and the absence of a clear majority by a single party could result in government gridlock and political uncertainty on further reforms and secondary legislation to modernize key sectors of the Mexican economy. Mexico's next federal legislative election will be in July 2018. We cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition, results of operations and prospects.

***Economic, political and social conditions in other countries may adversely affect our results.***

Many countries worldwide, including Mexico, have suffered significant economic, political and social volatility recently, and this may occur again in the future. Global instability has been caused by many different factors, including substantial fluctuations in economic growth, high levels of inflation, changes in currency values, changes in governmental economic or tax policies and regulations, and overall political, social and economic instability. We cannot assure you that such conditions will not return or that such conditions will not have a material adverse effect on our financial situation and results.

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The Mexican economy and the market value of securities issued by Mexican issuers may be, to varying degrees, affected by economic and market conditions in other emerging market countries and in the United States. Furthermore, economic conditions in Mexico are highly correlated with economic conditions in the United States as a result of the North American Free Trade Agreement (NAFTA), and increased economic activity between the two countries. In November 2016, presidential elections took place in the United States that resulted in a change of the nation's leadership. President Donald Trump has made public his intention to terminate or re-negotiate the terms of NAFTA, but the content of any potential revisions has not been specified. Furthermore, President Donald Trump has stated that if Canada and Mexico do not agree to re-negotiate the pact, the United States may withdraw from NAFTA. In addition, President Donald Trump has repeatedly announced during his campaign his plan to build a wall along the U.S.-Mexico border in order to stop immigrants from coming into the United States illegally, which may create frictions among the Mexican government and the U.S. government and reduce economic activity between those countries, thus affecting the travel of visitors from Mexico to the United States. However, there can be no assurance as to what a new U.S. administration will do, and the impact of these measures or any others adopted by the new U.S. administration cannot be predicted.

Adverse economic conditions in the United States, the termination or re-negotiation of NAFTA in North America or other related events could have an adverse effect on the Mexican economy. Although economic conditions in other emerging market countries and in the United States may differ significantly from economic conditions in Mexico, investors' reactions to developments in other countries may have an adverse effect on the market value of securities of Mexican issuers or of Mexican assets. There can be no assurance that future developments in other emerging market countries and in the United States, over which we have no control, will not have a material adverse effect on our financial situation and results.

### ***Technology and cyber-security risks.***

We use information systems to operate our business, to process financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting and legal and tax requirements. Because information systems are critical to many of our operating activities, our business may be impacted by system shutdowns, service disruptions or security breaches, such as failures during routine operations, network or hardware failures, malicious or disruptive software, unintentional or malicious actions of employees or contractors, cyber-attacks by common hackers, criminal groups or nation-state organizations or social-activist (hactivist) organizations, natural disasters, failures or impairments of telecommunication networks, or other catastrophic events. Such incidents could result in unauthorized disclosure of material confidential information and we could experience delays in reporting our financial results. In addition, misuse, leakage or falsification of information could result in violations of data privacy laws and regulations, damage our reputation and credibility and, therefore, could have a material adverse effect on our financial situation and results, or may require us to spend significant financial and other resources to remedy the damage caused by a security breach or to repair or replace networks and information systems.

### ***Security risks in Mexico could increase, and this could adversely affect our results.***

The presence of violence among drug cartels, and between these and the Mexican law enforcement and armed forces, pose a risk to our business. These incidents are relatively concentrated along the northern Mexican border, as well as in certain other Mexican states such as Sinaloa, Morelos, Michoacan and Guerrero. The north of Mexico is an important region for our retail operations, and an increase in crime rates could negatively affect our sales and customer traffic, increase our security expenses, and result in higher turnover of personnel or damage to the perception of our brands. This situation could worsen and adversely impact our business and financial results because consumer habits and patterns adjust to the increased perceived and real security risks, as people refrain from going out as much and gradually shift some on-premise consumption to off-premise consumption of food and beverages on certain social occasions.

### ***Depreciation of local currencies in other Latin American countries where we operate may adversely affect our financial position.***

The devaluation of the local currencies against the U.S. dollar in our non-Mexican territories can increase our operating costs in these countries, and depreciation of the local currencies against the Mexican peso can negatively affect the translation of our results for these countries. In recent years, the Venezuelan currency has been volatile against the Mexican peso. During 2016, in addition to the Venezuelan currency, the currency of Argentina also depreciated against the Mexican peso. Future currency devaluation or the imposition of exchange controls in any of these countries, or in Mexico, would have an adverse effect on our financial position and results.

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We have operated under exchange controls in Venezuela since 2003, which limit our ability to remit dividends abroad or make payments other than in local currency and that may increase the real price paid for raw materials and services purchased in local currency. Prior to 2014, we had historically used the official exchange rate in our Venezuelan operations. Commencing in 2014, the Venezuelan government announced a series of changes to the Venezuelan exchange control regime allowing the use of alternative exchange rates in addition to the official exchange rate.

In January 2014, the Venezuelan government announced an exchange rate determined by the state-run system known as the *Sistema Complementario de Administración de Divisas*, or SICAD. In March 2014, the Venezuelan government announced a new law that authorized an alternative method of exchanging Venezuelan bolivars to U.S. dollars known as SICAD II. In February 2015, the Venezuelan government announced that it was replacing SICAD II with a new market-based exchange rate determined by the system known as the *Sistema Marginal de Divisas*, or SIMADI. In February 2016, the Venezuelan government announced a 37% devaluation of the official exchange rate and changed the existing three-tier exchange rate system into a dual system by combining the official exchange rate and the SICAD exchange rate into a single official exchange rate and maintaining the SIMADI exchange rate.

In March 2016, the Venezuelan government announced that it was replacing the SIMADI exchange rate with a new market-based exchange rate known as *Divisas Complementarias*, or DICOM, and the official exchange rate with a preferential exchange rate denominated *Divisa Protegida*, or DIPRO. The DIPRO exchange rate is determined by the Venezuelan government and may be used to settle imports of a list of goods and raw materials. The DICOM exchange rate is determined based on supply and demand of U.S. dollars. As of April 14, 2017, the DIPRO and DICOM exchange rates were 10 bolivars and 713.96 bolivars per U.S. dollar, respectively. See Note 3.3 (a) to our audited consolidated financial statements.

We translated our results of operations in Venezuela for the full year ended December 31, 2016 into our reporting currency, the Mexican peso, using the DICOM exchange rate of 673.76 bolivars per US\$1.00, which was the exchange rate in effect as of such date. As a result, in 2016, we recognized a reduction in equity of Ps. 2,286 million. Since 2014, Coca-Cola FEMSA has recognized a reduction in equity in an aggregate amount of Ps. 20,230 million. Coca-Cola FEMSA will closely monitor any further developments that may affect the exchange rates to translate the financial statements of its Venezuelan subsidiary in the future.

Based on our facts and circumstances, we anticipate continuing to use the DICOM exchange rate to translate our future results of operations in Venezuela into our reporting currency, the Mexican peso. The Venezuelan government may announce further changes to the exchange rate system in the future. To the extent a higher exchange rate is applied to our investment in Venezuela in future periods as a result of changes to existing regulations, subsequently adopted regulations or otherwise, our results of operations in Venezuela and our financial condition would be further adversely affected. We will closely monitor any further developments in Venezuela, which may affect the exchange rates used by us to translate the results of our Venezuelan subsidiary in the future. More generally, future currency devaluations or the imposition of exchange controls in any of the countries where we operate may potentially increase our operating costs, which could have an adverse effect on our financial position and results of operations.

### **Risks Related to Our Holding of Heineken N.V. and Heineken Holding N.V. Shares**

#### ***FEMSA does not control Heineken N.V. s and Heineken Holding N.V. s decisions.***

On April 30, 2010, FEMSA announced the closing of the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in Heineken N.V. and Heineken Holding N.V. (which, together with their respective subsidiaries, we refer to as Heineken or the Heineken Group). As a consequence of this transaction, which we refer to as the Heineken transaction, FEMSA participates in the Heineken Holding N.V. Board of Directors, which we refer to as the Heineken Holding Board, and in the Heineken N.V. Supervisory Board, which we refer to as the Heineken Supervisory Board. However, FEMSA is not a majority or controlling shareholder of Heineken N.V. or Heineken Holding N.V., nor does it control the decisions of the Heineken Holding Board or the Heineken Supervisory Board. Therefore, the decisions made by the majority or controlling shareholders of Heineken N.V. or Heineken Holding N.V. or the Heineken Holding Board or the Heineken Supervisory Board may not be consistent with or may not consider the interests of FEMSA s shareholders or may be adverse to the interests of FEMSA s shareholders. Additionally, FEMSA has agreed not to disclose non-public information and decisions taken by Heineken.

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### ***Heineken operates in a large number of countries.***

Heineken is a global brewer and distributor of beer in a large number of countries. Because of FEMSA's investment in Heineken, FEMSA shareholders are indirectly exposed to the political, economic and social circumstances affecting the markets in which Heineken is present, which may have an adverse effect on the value of FEMSA's interest in Heineken, and, consequently, the value of FEMSA shares.

### ***The Mexican peso may strengthen compared to the Euro.***

In the event of a depreciation of the euro against the Mexican peso, the fair value of FEMSA's investment in Heineken's shares will be adversely affected. Furthermore, the cash flow that is expected to be received in the form of dividends from Heineken will be in euros, and therefore, in the event of a depreciation of the euro against the Mexican peso, the amount of expected cash flow will be adversely affected.

### ***Heineken N.V. and Heineken Holding N.V. are publicly listed companies.***

Heineken N.V. and Heineken Holding N.V. are listed companies whose stock trades publicly and is subject to market fluctuation. A reduction in the price of Heineken N.V. or Heineken Holding N.V. shares would result in a reduction in the economic value of FEMSA's participation in Heineken.

## **Risks Related to Our Principal Shareholders and Capital Structure**

### ***A majority of our voting shares are held by a voting trust, which effectively controls the management of our company, and the interests of which may differ from those of other shareholders.***

As of March 16, 2017, a voting trust owned 38.69% of our capital stock and 74.86% of our capital stock with full voting rights, consisting of Series B Shares. Consequently, the voting trust has the power to elect a majority of the members of our board of directors and to play a significant or controlling role in the outcome of substantially all matters to be decided by our board of directors or our shareholders. The interests of the voting trust may differ from those of our other shareholders. See **Item 7. Major Shareholders and Related-Party Transactions** and **Item 10. Additional Information Bylaws Voting Rights and Certain Minority Rights**.

### ***Holders of Series D-B and D-L Shares have limited voting rights.***

Holders of Series D-B and D-L Shares have limited voting rights and are only entitled to vote on specific matters, such as certain changes in the form of our corporate organization, dissolution, or liquidation, a merger with a company with a distinct corporate purpose, a merger in which we are not the surviving entity, a change of our jurisdiction of incorporation, the cancellation of the registration of the Series D-B and D-L Shares and any other matters that expressly require approval from such holders under the Mexican Securities Law. As a result of these limited voting rights, Series D-B and D-L holders will not be able to influence our business or operations. See **Item 7. Major Shareholders and Related-Party Transactions Major Shareholders** and **Item 10. Additional Information Bylaws Voting Rights and Certain Minority Rights**.

### ***Holders of ADSs may not be able to vote at our shareholder meetings.***

Our shares are traded on the New York Stock Exchange, or NYSE, in the form of ADSs. We cannot assure that holders of our shares in the form of ADSs will receive notice of shareholders' meetings from our ADS depository in sufficient time to enable such holders to return voting instructions to the ADS depository in a timely manner. In the event that instructions are not received with respect to any shares underlying ADSs, the ADS depository will, subject to certain limitations, grant a proxy to a person designated by us in respect of these shares. In the event that this proxy is not granted, the ADS depository will vote these shares in the same manner as the majority of the shares of each class for which voting instructions are received.

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***Holders of BD Units in the United States and holders of ADSs may not be able to participate in any future preemptive rights offering and as a result may be subject to dilution of their equity interests.***

Under applicable Mexican law, if we issue new shares for cash as a part of a capital increase, other than in connection with a public offering of newly issued shares or treasury stock, we are generally required to grant our shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage. Rights to purchase shares in these circumstances are known as preemptive rights. By law, we may not allow holders of our shares or ADSs who are located in the United States to exercise any preemptive rights in any future capital increases unless (1) we file a registration statement with the U.S. Securities and Exchange Commission, which we refer to as the SEC, with respect to that future issuance of shares or (2) the offering qualifies for an exemption from the registration requirements of the U.S. Securities Act of 1933. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC, as well as the benefits of preemptive rights to holders of our shares in the form of ADSs in the United States and any other factors that we consider important in determining whether to file a registration statement.

We may decide not to file a registration statement with the SEC to allow holders of our shares or ADSs who are located in the United States to participate in a preemptive rights offering. In addition, under current Mexican law, the sale by the ADS depository of preemptive rights and the distribution of the proceeds from such sales to the holders of our shares in the form of ADSs is not possible. As a result, the equity interest of holders of our shares in the form of ADSs would be diluted proportionately. **See Item 10. Additional Information Bylaws Preemptive Rights.**

***The protections afforded to minority shareholders in Mexico are different from those afforded to minority shareholders in the United States.***

Under Mexican law, the protections afforded to minority shareholders are different from, and may be less than, those afforded to minority shareholders in the United States. Mexican laws do not provide a remedy to shareholders relating to violations of fiduciary duties. There is no procedure for class actions as such actions are conducted in the United States and there are different procedural requirements for bringing shareholder lawsuits against directors for the benefit of companies. Therefore, it may be more difficult for minority shareholders to enforce their rights against us, our directors or our controlling shareholders than it would be for minority shareholders of a United States company.

***Investors may experience difficulties in enforcing civil liabilities against us or our directors, officers and controlling persons.***

FEMSA is organized under the laws of Mexico, and most of our directors, officers and controlling persons reside outside the United States. In addition, nearly all or a substantial portion of our assets and the assets of our subsidiaries are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States on such persons or to enforce judgments against them, including any action based on civil liabilities under the U.S. federal securities laws. There is doubt as to the enforceability against such persons in Mexico, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

***Developments in other countries may adversely affect the market for our securities.***

The market value of securities of Mexican companies is, to varying degrees, influenced by economic and securities market conditions in other emerging market countries. Although economic conditions are different in each country, investors' reaction to developments in one country can have effects on the securities of issuers in other countries, including Mexico. We cannot assure you that events elsewhere, especially in emerging markets, will not adversely affect the market value of our securities.

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*The failure or inability of our subsidiaries to pay dividends or other distributions to us may adversely affect us and our ability to pay dividends to holders of ADSs.*

We are a holding company. Accordingly, our cash flows are principally derived from dividends, interest and other distributions made to us by our subsidiaries. Currently, our subsidiaries do not have contractual obligations that require them to pay dividends to us. In addition, debt and other contractual obligations of our subsidiaries may in the future impose restrictions on our subsidiaries' ability to make dividend or other payments to us, which in turn may adversely affect our ability to pay dividends to shareholders and meet our debt and other obligations. As of March 31, 2017, we had no restrictions on our ability to pay dividends. Further, our non-controlling shareholder position in Heineken means that we will be unable to require payment of dividends with respect to the Heineken shares.

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**ITEM 4. INFORMATION ON THE COMPANY**

**The Company**

**Overview**

We are a Mexican company headquartered in Monterrey, Mexico, and our origin dates back to 1890. Our company was incorporated on May 30, 1936 and has a duration of 99 years. The duration can be extended indefinitely by resolution of our shareholders. Our legal name is Fomento Económico Mexicano, S.A.B. de C.V., and in commercial and business contexts we frequently refer to ourselves as FEMSA. Our principal headquarters are located at General Anaya No. 601 Pte., Colonia Bella Vista, Monterrey, Nuevo León 64410, Mexico. Our telephone number at this location is (+52-81) 8328-6000. Our website is [www.femsa.com](http://www.femsa.com). We are organized as a *sociedad anónima bursátil de capital variable* under the laws of Mexico.

We conduct our operations through the following principal holding companies:

Coca-Cola FEMSA, which produces, distributes and sells beverages and is the largest franchise bottler of *Coca-Cola* products in the world by volume;

FEMSA Comercio, comprising the Retail Division operating various small-format chain stores, including OXXO, the largest and fastest-growing chain in the Americas by number of stores; the Health Division, which includes drugstores and related operations; and the Fuel Division operating the OXXO GAS chain of retail service stations for fuels, motor oils and other car care products. As of December 31, 2016 and 2015, the Health Division and the Fuel Division, respectively, are treated as separate business segments; and

CB Equity, which holds our investment in Heineken, one of the world's leading brewers, with operations in over 70 countries.

**Corporate Background**

FEMSA traces its origins to the establishment of Mexico's first brewery, Cervecería Cuauhtémoc, S.A., which was founded in 1890 by four Monterrey businessmen: Francisco G. Sada, José A. Muguerza, Isaac Garza and José M. Schneider. Descendants of certain of the founders of Cervecería Cuauhtémoc, S.A. are participants of the voting trust that controls the management of our company.

The strategic integration of the company dates back to 1936 when its packaging operations were established to supply crown caps to the brewery. During this period, these operations were part of what was known as the Monterrey Group, which also included interests in banking and steel businesses and other packaging operations.

In 1974, the Monterrey Group was split between two branches of the descendants of the founding families of Cervecería Cuauhtémoc, S.A. The steel and other packaging operations formed the basis for the creation of Corporación Siderúrgica, S.A. (now Alfa, S.A.B. de C.V.), controlled by the Garza Sada family, and the beverage and banking operations were consolidated under the Valores Industriales, S.A. de C.V. (the corporate predecessor of FEMSA) corporate umbrella controlled by the Garza Lagüera family. FEMSA's shares were first listed on what is now the Bolsa Mexicana de Valores, S.A.B. de C.V. (which we refer to as the Mexican Stock Exchange) on September 19, 1978. Between the decades of 1970 and 1980, FEMSA diversified its operations through acquisitions in the soft drinks and mineral water industries, the establishment of the first stores under the trade name OXXO and other investments in the hotel, construction, auto parts, food and fishing industries, which were considered non-core businesses and were subsequently divested.

In the 1990s, we began a series of strategic transactions to strengthen the competitive positions of our operating subsidiaries. These transactions included the sale of a 30% strategic interest in Coca-Cola FEMSA to a wholly-owned subsidiary of The Coca-Cola Company and a subsequent public offering of Coca-Cola FEMSA shares, both of which occurred in 1993. Coca-Cola FEMSA listed its L shares on the Mexican Stock Exchange and, in the form of American Depositary Shares, or ADSs, on the New York Stock Exchange, or NYSE.

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In 1998, we completed a reorganization that changed our capital structure by converting our outstanding capital stock at the time of the reorganization into BD Units and B Units, and united the shareholders of FEMSA and the former shareholders of Grupo Industrial Emprex, S.A. de C.V. (which we refer to as Emprex) at the same corporate level through an exchange offer that was consummated on May 11, 1998. As part of the reorganization, FEMSA listed ADSs on the NYSE representing BD Units, and listed the BD Units and its B Units on the Mexican Stock Exchange.

In May 2003, our subsidiary Coca-Cola FEMSA expanded its operations throughout Latin America by acquiring 100% of Panamerican Beverages, Inc. (which we refer to as Panamco), then the largest soft drink bottler in Latin America in terms of sales volume in 2002. Through its acquisition of Panamco, Coca-Cola FEMSA began producing and distributing *Coca-Cola* trademark beverages in additional territories in Mexico, Central America, Colombia, Venezuela and Brazil, along with bottled water, beer and other beverages in some of these territories.

In April 2008, FEMSA shareholders approved a proposal to amend our bylaws in order to preserve the unit structure for our shares that has been in place since May 1998, and to maintain our existing share structure beyond May 11, 2008. Our bylaws previously provided that on May 11, 2008 our Series D-B Shares would convert into Series B Shares and our Series D-L Shares would convert into Series L Shares with limited voting rights. In addition, our bylaws provided that, on May 11, 2008, our current unit structure would cease to exist and each of our B Units would be unbundled into five Series B Shares, while each BD Unit would unbundle into three Series B Shares and two newly issued Series L Shares. Following the April 22, 2008 shareholder approvals, the automatic conversion of our share and unit structures no longer exist, and, absent shareholder action, our share structure will continue to be composed of Series B Shares, which must represent not less than 51% of our outstanding capital stock, and Series D-B and Series D-L Shares, which together may represent up to 49% of our outstanding capital stock. Our Unit structure, absent shareholder action, will continue to consist of B Units, which bundle five Series B Shares, and BD Units, which bundle one Series B Share, two Series D-B Shares and two Series D-L Shares. See **Item 9. The Offer and Listing Description of Securities.**

In January 2010, FEMSA announced that its board of directors unanimously approved a definitive agreement under which FEMSA would exchange its brewery business of Cuauhtémoc Moctezuma for a 20% economic interest in the Heineken Group, one of the world's leading brewers. In April 2010, FEMSA announced the closing of the transaction, after Heineken N.V., Heineken Holding N.V. and FEMSA approved the transaction. Under the terms of the agreement, FEMSA received 43,018,320 shares of Heineken Holding N.V. and 43,009,699 shares of Heineken N.V., with an additional 29,172,504 shares of Heineken N.V. (which shares we refer to as the Allotted Shares) delivered pursuant to an allotted share delivery instrument, or the ASDI, with the final installment delivered in October 2011. As of December 31, 2016, FEMSA's interest in Heineken N.V. represented 12.53% of Heineken N.V.'s outstanding capital and 14.94% of Heineken Holding N.V.'s outstanding capital, resulting in our 20% economic interest in the Heineken Group. The principal terms of the Heineken transaction documents are summarized below in **Item 10. Additional Information Material Contracts.**

In January 2013, Coca-Cola FEMSA acquired a 51.0% non-controlling majority stake in KOF Philippines from The Coca-Cola Company. Since January 25, 2017, Coca-Cola FEMSA controls KOF Philippines as all decisions relating to the day-to-day operation and management of KOF Philippines's business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company.

In May 2013, FEMSA Comercio through one of its subsidiaries, Cadena Comercial de Farmacias, S.A.P.I. de C.V. (which we refer to as CCF), closed the acquisition of Farmacias YZA, a leading drugstore operator in Southeast Mexico, headquartered in Merida, Yucatan. The founding shareholders of Farmacias YZA hold a 25% stake in CCF. In a separate transaction, on May 13, 2013, CCF acquired Farmacias FM Moderna, a leading drugstore operator in the western state of Sinaloa.



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In March 2015, following changes to the legal framework resulting from the adoption of Mexico's energy reform, FEMSA Comercio began to acquire service station franchises of Petroleos Mexicanos (PEMEX) and obtain permits from PEMEX to operate such service stations as franchisee. These acquisitions started taking place after two decades (1995-2015) of FEMSA Comercio providing operation services to retail service stations for fuels, motor oils and other car care products through agreements with third parties that owned PEMEX franchises.

In June 2015, CCF acquired 100% of Farmacias Farmacon, a regional pharmacy chain consisting at that time of more than 200 stores in the northwestern Mexican states of Sinaloa, Sonora, Baja California and Baja California Sur.

In September 2015, FEMSA Comercio acquired 60% of Group Socofar, a leading South American drugstore operator based in Santiago, Chile. Socofar operated at that time, directly and through franchises, more than 600 drugstores and 150 beauty stores throughout Chile and over 150 drugstores throughout Colombia. FEMSA Comercio has the right to appoint the majority of the members of Socofar's board of directors and exercises day-to-day operating control over Socofar. As part of the shareholders agreement entered into with the former controlling shareholder, such minority shareholder has the right to appoint two members of the board of directors of Socofar.

In 2016, FEMSA Comercio, through its subsidiary Cadena Comercial USA Corporation, LLC. (Cadena Comercial USA), completed the acquisition of an 80% economic stake in Specialty's Café & Bakery, Inc (Specialty's), which operates café restaurants in the states of California, Washington and Illinois. In January 2017, Cadena Comercial USA completed the acquisition of the remaining 20% economic stake in Specialty's becoming its sole owner.

In June 2016, FEMSA Comercio acquired Comercial Big John Limitada (Big John), a leading convenience store operator based in Santiago, Chile. At the time of the acquisition, Big John operated 49 stores, mainly in the Santiago metropolitan area.

For more information on FEMSA Comercio's recent transactions, see **Item 4. Information on the Company FEMSA Comercio Corporate History**.

In December 2016, Coca-Cola FEMSA acquired Vonpar, a Brazilian bottler of Coca-Cola trademark products, one of the largest privately owned bottlers in the Brazilian Coca-Cola system.

For more information on Coca-Cola FEMSA's recent transactions, see **Item 4. Information on the Company Coca-Cola FEMSA Corporate History**.

**Table of Contents****Ownership Structure**

We conduct our business through our principal sub-holding companies as shown in the following diagram and table:

**Principal Sub-holding Companies Ownership Structure**

As of March 31, 2017

- (1) Compañía Internacional de Bebidas, S.A. de C.V., which we refer to as CIBSA.
- (2) Percentage of issued and outstanding capital stock owned by CIBSA (63% of Coca-Cola FEMSA's capital stock with full voting rights). See **Item 4. Information on the Company Coca-Cola FEMSA Capital Stock.**
- (3) Ownership in CB Equity held through various FEMSA subsidiaries.
- (4) Combined economic interest in Heineken N.V. and Heineken Holding N.V.
- (5) Includes the Retail Division, the Health Division and the Fuel Division.

The following table presents an overview of our operations by reportable segment and by geographic area:

**Operations by Segment Overview**

Year Ended December 31, 2016 and % of growth (decrease) vs. previous year

|   | Coca-Cola FEMSA  |                     | Retail Division |                     | Health Division <sup>(4)</sup><br>(5) |      | Fuel Division |     | CB Equity <sup>(1)</sup> |     |
|---|--|---------------------|-----------------|---------------------|---------------------------------------|------|---------------|-----|--------------------------|-----|
|   | (in millions of Mexican pesos, except for employees and percentages) |                     |                 |                     |                                       |      |               |     |                          |     |
| Total revenues  | Ps. 177,718  | 17%                 | Ps. 137,139     | 14%                 | Ps. 43,411                            | 233% | Ps. 28,616    | 55% | Ps.                      | NA  |
| Gross Profit  | 79,662   | 11%                 | 50,990          | 17%                 | 12,738                                | 245% | 2,248         | 58% |                          | NA  |
| Share of the profit (loss) of associates and joint ventures accounted for using the equity method, net of taxes | 147  | (5)% <sup>(2)</sup> | 15              | 250% <sup>(3)</sup> |                                       | NA   |               | NA  | 6,342                    | 8%  |
| Total assets  | 279,256  | 33%                 | 59,740          | 34%                 | 35,862                                | 59%  | 3,649         | 13% | 108,976                  | 14% |
| Employees   | 85,145   | 2%                  | 125,166         | 10%                 | 21,246                                | 6%   | 5,359         | 18% |                          | NA  |

- (1) CB Equity holds our Heineken N.V. and Heineken Holding N.V. shares.
- (2) Reflects the percentage decrease between the gain of Ps. 147 million recorded in 2016 and the gain of Ps. 155 million recorded in 2015.
- (3) Reflects the percentage increase between the gain of Ps. 15 million recorded in 2016 and the loss of Ps. 10 million recorded in 2015.
- (4) The operations that compose the Health Division have been treated as a separate reportable segment since 2016.
- (5) Total revenues, gross profit and total assets include the Group Socofar's operations recorded since October 2015.

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**Total Revenues Summary by Segment<sup>(1)</sup>**

|                             | Year Ended December 31, 2016   |             |             |
|-----------------------------|--------------------------------|-------------|-------------|
|                             | 2016                           | 2015        | 2014        |
|                             | (in millions of Mexican pesos) |             |             |
| Coca-Cola FEMSA             | Ps. 177,718                    | Ps. 152,360 | Ps. 147,298 |
| FEMSA Comercio              |                                |             |             |
| Retail Division             | 137,139                        | 119,884     | 109,624     |
| Health Division             | 43,411                         | 13,053      |             |
| Fuel Division               | 28,616                         | 18,510      |             |
| Other                       | 29,491                         | 22,774      | 20,069      |
| Consolidated total revenues | Ps. 399,507                    | Ps. 311,589 | Ps. 263,449 |

- (1) The sum of the financial data for each of our segments differs from our consolidated financial information due to intercompany transactions, which are eliminated in consolidation, and certain assets and activities of FEMSA.

**Total Revenues Summary by Geographic Area<sup>(1)</sup>**

|   | Year Ended December 31, 2016   |             |             |
|---|--------------------------------|-------------|-------------|
|   | 2016                           | 2015        | 2014        |
|   | (in millions of Mexican pesos) |             |             |
| Mexico and Central America <sup>(2)</sup> | Ps. 267,732                    | Ps. 228,563 | Ps. 186,736 |
| South America <sup>(3)</sup>              | 113,937                        | 74,928      | 69,172      |
| Venezuela                                 | 18,937                         | 8,904       | 8,835       |
| Consolidated total revenues               | Ps. 399,507                    | Ps. 311,589 | Ps. 263,449 |

- (1) The sum of the financial data for each geographic area differs from our consolidated financial information due to intercompany transactions, which are eliminated in consolidation.
- (2) Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico-only) revenues were Ps. 254,643 million, Ps. 218,809 million and Ps. 178,125 for the years ended December 31, 2016, 2015 and 2014, respectively.
- (3) South America includes Brazil, Colombia, Argentina and Chile. South America revenues include revenues from our operations in Brazil of Ps. 48,924, Ps. 39,749 million and Ps. 45,799 million; revenues from our operations in Colombia of Ps. 17,027, Ps. 14,283 million and Ps. 14,207 million; revenues from our operations in Argentina of Ps. 12,340 million, Ps. 14,004 million and Ps. 9,714 million for the years ended December 31, 2016, 2015 and 2014, respectively and revenues from our operations in Chile of Ps. 36,631 and 7,586 million for the years ended December 31, 2016 and 2015, respectively.

**Significant Subsidiaries**

The following table sets forth our significant subsidiaries as of December 31, 2016:

| Name of Company                | Jurisdiction of Establishment | Percentage Owned     |
|--------------------------------|-------------------------------|----------------------|
| <b>CIBSA:</b>                  | Mexico                        | 100.0%               |
| Coca-Cola FEMSA                | Mexico                        | 47.9% <sup>(1)</sup> |
| <b>Emprex:</b>                 | Mexico                        | 100.0%               |
| FEMSA Comercio <sup>(2)</sup>  | Mexico                        | 100.0%               |
| <b>CB Equity<sup>(3)</sup></b> | United Kingdom                | 100.0%               |

- (1) Percentage of capital stock. FEMSA, through CIBSA, owns 63% of the shares of Coca-Cola FEMSA with full voting rights.
- (2) Includes the Retail Division, the Health Division and the Fuel Division.
- (3) Ownership in CB Equity held through various FEMSA subsidiaries. CB Equity holds our Heineken N.V and Heineken Holding N.V. shares.

**Business Strategy**

We understand the importance of connecting with our end consumers by interpreting their needs, and ultimately delivering the right products to them for the right occasions and the optimal value proposition. We strive to achieve this by developing brand value, expanding our significant distribution capabilities and improving the efficiency of our operations while aiming to reach our full potential. We continue to improve our information gathering and processing systems in order to better know and understand what our consumers want and need, and we are improving our production and distribution by more efficiently leveraging our asset base.

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Our objective is to create economic, social and environmental value for our stakeholders including our employees, our consumers, our shareholders and the enterprises and institutions within our society now and into the future.

We believe that the competencies that our businesses have developed can be replicated in other geographic regions. This underlying principle guides our consolidation and growth efforts, which have led to our current continental footprint. We operate in Mexico, Central and South America and the Philippines including some of the most populous metropolitan areas in Latin America which provides us with opportunities to create value through both an improved ability to execute our strategies in complex markets, and the use of superior commercial tools. We have also increased our capabilities to operate and succeed in other geographic regions by improving management skills in order to obtain a precise understanding of local consumer needs. Going forward, we intend to use those capabilities to continue our international expansion of both Coca-Cola FEMSA and FEMSA Comercio, expanding both our geographic footprint and our presence in the non-alcoholic beverage industry and in small box retail formats, as well as taking advantage of potential opportunities across markets to leverage our capability set.

Recent examples include our entry into the drugstore business in Mexico and South America, and into the fuel service station business in Mexico, where we are applying our retail and operational capabilities to develop attractive value propositions for consumers in these formats.

## **Coca-Cola FEMSA**

### **Overview**

Coca-Cola FEMSA is the largest franchise bottler of *Coca-Cola* trademark beverages in the world by volume. Coca-Cola FEMSA operates in territories in the following countries:

Mexico a substantial portion of central Mexico, the southeast and northeast of Mexico (including the Gulf region).

Central America Guatemala (Guatemala City and surrounding areas), Nicaragua (nationwide), Costa Rica (nationwide) and Panama (nationwide).

Colombia most of the country.

Venezuela nationwide.

Brazil a major part of the states of Sao Paulo and Minas Gerais, the states of Parana, Santa Catarina and Mato Grosso do Sul and part of the states of Rio de Janeiro, Rio Grande do Sul and Goias.

Argentina Buenos Aires and surrounding areas.

The Philippines nationwide (through a joint venture with The Coca-Cola Company).

Coca-Cola FEMSA was organized on October 30, 1991 as a stock corporation with variable capital (*sociedad anónima de capital variable*) under the laws of Mexico for a term of 99 years. On December 5, 2006, as required by amendments to the Mexican Securities Market Law, Coca-Cola FEMSA became a publicly traded stock corporation with variable capital (*sociedad anónima bursátil de capital variable*). Coca-Cola FEMSA's legal name is Coca-Cola FEMSA, S.A.B. de C.V. Coca-Cola FEMSA's principal executive offices are located at Calle Mario Pani No. 100, Colonia Santa Fe Cuajimalpa, Delegación Cuajimalpa de Morelos, 05348, Ciudad de México, México. Coca-Cola FEMSA's telephone number at this location is (52-55) 1519-5000. Coca-Cola FEMSA's website is [www.coca-colafemsa.com](http://www.coca-colafemsa.com).



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The following is an overview of Coca-Cola FEMSA's operations by consolidated reporting segment in 2016.

**Operations by Consolidated Reporting Segment Overview**

**Year Ended December 31, 2016**

|  | <b>Total Revenues</b>                                     |        | <b>Gross Profit</b> |        |
|--|---|--------|---------------------|--------|
|  | <b>(in millions of Mexican pesos, except percentages)</b> |        |                     |        |
| Mexico and Central America <sup>(1)</sup>          | Ps. 87,557  | 49.3%  | Ps. 43,569          | 54.7%  |
| South America (excluding Venezuela) <sup>(2)</sup> | 71,293  | 40.1%  | 29,263              | 36.7%  |
| Venezuela  | 18,868  | 10.6%  | 6,830               | 8.6%   |
| Consolidated                                       | Ps. 177,718   | 100.0% | Ps. 79,662          | 100.0% |

(1) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama.

(2) Includes Colombia, Brazil and Argentina. Includes results of Vonpar from December 2016.

**Corporate History**

Coca-Cola FEMSA commenced operations in 1979, when one of our subsidiaries acquired certain sparkling beverage bottlers in Mexico City and surrounding areas. In 1991, we transferred our ownership in the bottlers to FEMSA Refrescos, S.A. de C.V., Coca-Cola FEMSA's corporate predecessor. In June 1993, a subsidiary of The Coca-Cola Company subscribed for 30% of Coca-Cola FEMSA's capital stock in the form of Series D shares. In September 1993, we sold Series L shares that represented 19.0% of Coca-Cola FEMSA's capital stock to the public, and Coca-Cola FEMSA listed these shares on the Mexican Stock Exchange and, in the form of ADSs, on the NYSE.

In a series of transactions since 1994, Coca-Cola FEMSA has acquired new territories, brands and other businesses which today comprise its business. In May 2003, Coca-Cola FEMSA acquired Panamerican Beverages Inc., or Panamco, and began producing and distributing *Coca-Cola* trademark beverages in additional territories in the central and gulf regions of Mexico and in Central America (Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela and Brazil, along with bottled water, beer and other beverages in some of these territories.

In November 2006, we acquired 148,000,000 of Coca-Cola FEMSA's Series D shares from certain subsidiaries of The Coca-Cola Company, which increased FEMSA's ownership to 53.7%.

In November 2007, Coca-Cola FEMSA acquired together with The Coca-Cola Company 100.0% of the shares of capital stock of Jugos del Valle, S.A.P.I. de C.V., or Jugos del Valle. In 2008, Coca-Cola FEMSA, The Coca-Cola Company and all Mexican and Brazilian *Coca-Cola* bottlers entered into a joint business for the Mexican and Brazilian operations, respectively, of Jugos del Valle.

In December 2007 and May 2008, Coca-Cola FEMSA sold most of its proprietary brands to The Coca-Cola Company. The proprietary brands are now being licensed back to Coca-Cola FEMSA by The Coca-Cola Company pursuant to Coca-Cola FEMSA's bottler agreements. In May 2008, Coca-Cola FEMSA entered into a transaction with The Coca-Cola Company to acquire its wholly owned bottling franchise Refrigerantes Minas Gerais, Ltda., or REMIL, located in the State of Minas Gerais in Brazil.

In July 2008, Coca-Cola FEMSA acquired the Agua de los Angeles bulk water business in Mexico City and surrounding areas from Grupo Embotellador CIMSA, S.A. de C.V., at the time one of the Coca-Cola bottling franchises in Mexico. The trademarks remain with The Coca-Cola Company. Coca-Cola FEMSA subsequently merged Agua de los Angeles into its bulk water business under the *Ciel* brand.

In February 2009, Coca-Cola FEMSA acquired together with The Coca-Cola Company the *Brisa* bottled water business in Colombia from Bavaria, S.A., a subsidiary of SABMiller plc. Coca-Cola FEMSA acquired the production assets and the distribution territory, and The Coca-Cola Company acquired the *Brisa* brand.

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In May 2009, Coca-Cola FEMSA entered into an agreement to manufacture, distribute and sell the *Crystal* trademark water products in Brazil jointly with The Coca-Cola Company.

In August 2010, Coca-Cola FEMSA acquired from The Coca-Cola Company, along with other Brazilian Coca-Cola bottlers, Leão Alimentos e Bebidas, Ltda., or Leão Alimentos, manufacturer and distributor of the *Matte Leão* tea brand, which would later be integrated with the Brazilian operations of Jugos del Valle.

In March 2011, Coca-Cola FEMSA acquired together with The Coca-Cola Company, Grupo Industrias Lácteas, S.A. (known as Estrella Azul), a Panamanian conglomerate that participates in the dairy and juice-based beverage categories in Panama.

In October 2011, Coca-Cola FEMSA merged with Grupo Tampico, a Mexican bottler with operations in the states of Tamaulipas, San Luis Potosi, and Veracruz, as well as in parts of the states of Hidalgo, Puebla and Queretaro.

In December 2011, Coca-Cola FEMSA merged with Grupo CIMSA, a Mexican *Coca-Cola* bottler with operations mainly in the states of Morelos and Mexico, as well as in parts of the states of Guerrero and Michoacan. As part of Coca-Cola FEMSA's merger with Grupo CIMSA, Coca-Cola FEMSA also acquired a 13.2% equity interest in Promotora Industrial Azucarera, S.A de C.V., or PIASA.

In May 2012, Coca-Cola FEMSA merged with Grupo Fomento Queretano, a Mexican bottler with operations mainly in the state of Queretaro, as well as in parts of the states of Mexico, Hidalgo and Guanajuato. As part of Coca-Cola FEMSA's merger with Grupo Fomento Queretano, it also acquired an additional 12.9% equity interest in PIASA.

In August 2012, Coca-Cola FEMSA acquired, through Jugos del Valle, an indirect participation in Santa Clara Mercantil de Pachuca, S.A. de C.V., or Santa Clara, a producer of milk and dairy products in Mexico.

In January 2013, Coca-Cola FEMSA acquired a 51.0% non-controlling majority stake in KOF Philippines from The Coca-Cola Company. Since January 25, 2017, Coca-Cola FEMSA controls KOF Philippines as all decisions relating to the day-to-day operation and management of KOF Philippines's business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company.

In May 2013, Coca-Cola FEMSA merged with Grupo Yoli, a Mexican bottler with operations mainly in the state of Guerrero, as well as in parts of the state of Oaxaca. As part of Coca-Cola FEMSA's merger with Grupo Yoli, Coca-Cola FEMSA also acquired an additional 10.1% equity interest in PIASA, for a total ownership of 36.4% as of April 7, 2017.

In August 2013, Coca-Cola FEMSA acquired Companhia Fluminense, a franchise that operates in parts of the states of Sao Paulo, Minas Gerais and Rio de Janeiro in Brazil. As part of Coca-Cola FEMSA acquisition of Companhia Fluminense, it also acquired an additional 1.2% equity interest in Leão Alimentos.

In October 2013, Coca-Cola FEMSA acquired Spaipa, a Brazilian bottler with operations in the state of Parana and in parts of the state of Sao Paulo. As part of Coca-Cola FEMSA's acquisition of Spaipa, it also acquired an additional 5.8% equity interest in Leão Alimentos and a 50.0% stake in Fountain Água Mineral Ltda., a joint venture to develop the water category together with The Coca-Cola Company.

In 2016, Coca-Cola FEMSA entered into certain distribution agreements with Monster Energy Company to sell and distribute *Monster* trademark energy drinks in most of Coca-Cola FEMSA's territories. These agreements have a ten-year term and are automatically renewed for up to two five-year terms.

In December 2016, Coca-Cola FEMSA acquired Vonpar, a Brazilian bottler of Coca-Cola trademark products with operations in the states of Rio Grande do Sul and Santa Catarina in Brazil. As part of Coca-Cola FEMSA acquisition of Vonpar, it also acquired an additional 3.36% equity interest in Leão Alimentos, for a total ownership of 27.7% as of April 7, 2017.



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In March 2017, Coca-Cola FEMSA acquired, through Jugos del Valle, an indirect participation in the Mexican AdeS soy-based beverage business, through Coca-Cola FEMSA Brazilian and Argentine subsidiaries, an indirect participation in the Brazilian and Argentine AdeS soy-based beverage businesses, and through Coca-Cola FEMSA Colombian subsidiary, a direct participation in the Colombian AdeS soy-based beverage business. As a result of this acquisition, Coca-Cola FEMSA has exclusive distribution rights of AdeS soy-based beverages in these territories.

## **Capital Stock**

As of April 7, 2017, we indirectly owned Series A shares equal to 47.9% of Coca-Cola FEMSA capital stock (63.0% of Coca-Cola FEMSA's capital stock with full voting rights). As of April 7, 2017, The Coca-Cola Company indirectly owned Series D shares equal to 28.1% of the capital stock of Coca-Cola FEMSA (37.0% of Coca-Cola FEMSA's capital stock with full voting rights). Series L shares with limited voting rights, which trade on the Mexican Stock Exchange and in the form of ADSs on the NYSE, constitute the remaining 24.0% of Coca-Cola FEMSA's capital stock.

## **Business Strategy**

Coca-Cola FEMSA operates with a large geographic footprint in Latin America. Coca-Cola FEMSA has created a more flexible organizational structure to execute its strategies and continue with its track record of growth. Coca-Cola FEMSA has also aligned its business strategies more efficiently, ensuring a faster introduction of new products and categories, and a more rapid and effective design and deployment of commercial models.

To maximize growth and profitability and to create value for our shareholders and customers, Coca-Cola FEMSA plans on executing the following key strategies: (i) continue evolving its commercial and client segmentation models to capture the industry's long-term value potential; (ii) implement multi-segmentation strategies to target customers by consumption occasion, competitive environment and income level; (iii) implement well-planned product development, packaging, pricing and marketing strategies through different distribution channels; (iv) drive product innovation along its different product categories; (v) develop new businesses and distribution channels; and (vi) drive operational efficiencies throughout its organization to achieve the full operating potential of its commercial models and processes. In furtherance of these efforts, Coca-Cola FEMSA intends to continue to focus on, among other initiatives, the following:

Working with The Coca-Cola Company to develop a business model to continue exploring and participating in new lines of beverages, extending existing product lines and effectively advertising and marketing our products;

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Developing and expanding its still beverage portfolio through innovation, strategic acquisitions and by entering into agreements to acquire companies with The Coca-Cola Company;

Expanding its bottled water strategy with The Coca-Cola Company through innovation and selective acquisitions to maximize profitability across its market territories;

Strengthening its selling capabilities and go-to-market strategies, including pre-sale, conventional selling and hybrid routes, in order to get closer to its customers and help them satisfy the beverage needs of consumers;

Implementing selective packaging strategies designed to increase consumer demand for its products and to build a strong returnable base for the *Coca-Cola* brand;

Replicating its best practices throughout the value chain;

Rationalizing and adapting its organizational and asset structure in order to be in a better position to anticipate and respond to industry changes and trends in a competitive environment;

Building a multi-cultural collaborative team, from top to bottom; and

Broadening its geographic footprint through organic growth and strategic joint ventures, mergers and acquisitions.

Coca-Cola FEMSA seeks to increase sales of its products in the territories where it operates. To that end, Coca-Cola FEMSA's marketing teams continuously develop sales strategies tailored to its different customers across its various territories and distribution channels. Coca-Cola FEMSA continues to develop its product portfolio to better meet market demand and maintain its overall profitability. To stimulate and respond to consumer demand, Coca-Cola FEMSA continues to introduce new categories, products and presentations. **See Item 4. Information on the Company Coca-Cola FEMSA Our Products and Item 4. Information on the Company Coca-Cola FEMSA Packaging** In addition, because Coca-Cola FEMSA views its relationship with The Coca-Cola Company as integral to its business, Coca-Cola FEMSA uses market information systems and strategies developed with The Coca-Cola Company to improve its business and marketing strategies. **See Item 4. Information on the Company Coca-Cola FEMSA Marketing.**

Coca-Cola FEMSA also continuously seeks to increase productivity in its facilities through infrastructure and process reengineering for improved asset utilization. Coca-Cola FEMSA's capital expenditure program includes investments in production and distribution facilities, bottles, cases, coolers and information systems. Coca-Cola FEMSA believes that this program will allow it to maintain its capacity and flexibility to innovate and to anticipate and respond to consumer demand for its products.

In 2015, Coca-Cola FEMSA redesigned its corporate structure to strengthen the core functions at its organization. Through this restructuring Coca-Cola FEMSA created specialized departments (centers of excellence) focused on manufacturing, distribution and logistics, commercial, and IT innovation areas. These departments not only enable centralized collaboration and knowledge sharing, but also drive standards of excellence and best practices in Coca-Cola FEMSA's key strategic capabilities. Coca-Cola FEMSA's priorities include enhanced manufacturing efficiency, improved distribution and logistics, and cutting-edge IT-enabled commercial innovation.

As of December 31, 2016, Coca-Cola FEMSA had the following centers of excellence:

*Manufacturing Center of Excellence.* This center focuses on developing industry-leading operating models, practices and processes mainly by reducing operating costs, increasing efficiency and productivity of Coca-Cola FEMSA's manufacturing assets, minimizing waste disposal by optimizing the materials used in Coca-Cola FEMSA's manufacturing processes, and promoting high industrial

quality and product safety.

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*Distribution and Logistics Center of Excellence.* This center seeks to ensure best-in-class customer service by optimizing performance in Coca-Cola FEMSA's supply chain, transport engineering and equipment design, warehouse management and secondary distribution from Coca-Cola FEMSA's warehouses to the point of sale.

*Commercial Center of Excellence.* This center is designed to develop expertise and promote excellence across key commercial areas. The center establishes and aligns Coca-Cola FEMSA's commercial views across key functional areas, identifies and replicates best commercial practices and processes, develops and enforces commercial performance standards and drives innovation across Coca-Cola FEMSA's commercial activities.

*IT Innovation Center of Excellence.* This center is established to support Coca-Cola FEMSA's other centers of excellence by developing a comprehensive technological platform to create and foster innovative processes, technologies and capabilities to centralize information and promote knowledge sharing across Coca-Cola FEMSA's key strategic areas.

Coca-Cola FEMSA is further accelerating its cultural evolution by creating a unified corporate culture founded on leadership, talent and innovation. Coca-Cola FEMSA focuses on management quality as a key element of its growth strategy and remains committed to fostering the development of quality management at all levels. Coca-Cola FEMSA's Strategic Talent Management Model is designed to enable Coca-Cola FEMSA to reach its full potential by developing the capabilities of its employees and executives. This holistic model works to build the skills necessary for its employees and executives to reach their maximum potential, while contributing to the achievement of its short- and long-term objectives. To support this capability development model, Coca-Cola FEMSA's board of directors allocates a portion of its yearly operating budget to fund these management training programs.

Sustainable development is a comprehensive part of Coca-Cola FEMSA's strategic framework for business operation and growth. Coca-Cola FEMSA bases its efforts in its core foundation, its ethics and values. Coca-Cola FEMSA focuses on three main areas, (i) its people, by encouraging the comprehensive development of its employees and their families; (ii) its communities, by promoting the generation of sustainable communities where it serves, healthy habits, self-care, adequate nutrition and physical activity, and supporting the development of its value chain; and (iii) its planet, by establishing guidelines that Coca-Cola FEMSA believes will result in efficient use of natural resources to minimize the impact that its operations might have on the environment and contributing to creating a broader awareness of caring for its environment through education and community programs.

Coca-Cola FEMSA is conscious that weight issues and obesity are worldwide health problems, which need a collective effort for their solution. Coca-Cola FEMSA believes that neither beverages nor any other product by itself is the direct cause of these problems, as they are complicated issues related to dietary habits, physical activity and education. However, as industry leaders, Coca-Cola FEMSA would like to be a part of the solution. That is why Coca-Cola FEMSA continues to be committed to find, together with public and private institutions of the countries where it operates, a comprehensive solution to this problem. Through innovation, Coca-Cola FEMSA has developed new products and expanded the availability of low or zero calorie beverages as well as bottled water in different presentations, adapted to consumers' lifestyle. Approximately 36.0% of Coca-Cola FEMSA's brands are low- or non-caloric beverages. In addition, Coca-Cola FEMSA informs its consumers through front labeling on nutrient composition and caloric content of our beverages. Coca-Cola FEMSA has been a pioneer in the introduction of the Guideline Daily Amounts (GDA), and it performs responsible advertising practices and marketing. Coca-Cola FEMSA voluntarily adheres to national and international codes of conduct in advertising and marketing, including communications targeted to minors which are developed based on the Responsible Marketing policies and Global School Beverage Guidelines of The Coca-Cola Company, achieving full compliance with all such codes in all of the countries where it operates. Moreover, Coca-Cola FEMSA actively promotes exercise, proper nutrition and healthy habits to promote an energetic balance, demonstrating its commitment to encourage physical activity and healthy habits among consumers. As part of the progress towards Coca-Cola FEMSA's goal of benefiting more than five million people in healthy lifestyle programs from 2015 through 2020, more than 500,000 people in 2015 and approximately one million in 2016 benefited from its healthy activity programs.

Coca-Cola FEMSA pledges to continue working to innovate and implement measures to help people lead active and healthy lifestyles.

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### **KOF Philippines Joint Venture**

On January 25, 2013, as part of Coca-Cola FEMSA's efforts to expand its geographic reach, it acquired a 51.0% non-controlling majority stake in KOF Philippines from The Coca-Cola Company. Coca-Cola FEMSA has an option to acquire the remaining 49.0% stake in KOF Philippines at any time during the seven years following the closing date. Coca-Cola FEMSA also has a put option to sell its ownership in KOF Philippines to The Coca-Cola Company commencing on the fifth anniversary of the closing date and ending on the sixth anniversary of the closing date.

Pursuant to the Coca-Cola FEMSA's shareholders' agreement with The Coca-Cola Company, during a four-year period that ended on January 25, 2017, all decisions relating to KOF Philippines were approved jointly with The Coca-Cola Company. Since January 25, 2017, Coca-Cola FEMSA controls KOF Philippines as all decisions relating to the day-to-day operation and management of KOF Philippines's business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company. The Coca-Cola Company has the right to appoint (and may remove) KOF Philippines's chief financial officer. Coca-Cola FEMSA has the right to appoint (and may remove) the chief executive officer and all other officers of KOF Philippines. Commencing on February 1, 2017, Coca-Cola FEMSA started consolidating KOF Philippines's financial results in its financial statements. Coca-Cola FEMSA's results for the first quarter of 2017 and its future results in 2017 will reflect a reduction in its share of the profit of associates and joint ventures accounted for using the equity method, net of taxes, as a result of this consolidation.

As of December 31, 2016, Coca-Cola FEMSA's investment under the equity method in KOF Philippines was Ps.11,460 million. KOF Philippines's product portfolio in the Philippines consists of *Coca-Cola* trademark beverages and its total sales volume in 2016 reached 569 million unit cases. The operations of KOF Philippines are comprised of 19 production plants and serve close to 846,588 customers.

The Philippines presents significant opportunities for further growth. *Coca-Cola* has been present in the Philippines since the start of the 20th century and since 1912 it has been locally producing *Coca-Cola* products. The Philippines received the first Coca-Cola bottling and distribution franchise in Asia. Coca-Cola FEMSA's strategic framework for growth in the Philippines is based on three pillars: portfolio, route to market and supply chain.

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**Coca-Cola FEMSA's Territories**

The following map shows Coca-Cola FEMSA's territories, including KOF Philippines, its joint venture in the Philippines with The Coca-Cola Company, giving estimates in each case of the population to which Coca-Cola FEMSA offers products and the number of retailers of its beverages as of December 31, 2016:

**Table of Contents****Coca-Cola FEMSA's Products**

Coca-Cola FEMSA produces, markets, sells and distributes *Coca-Cola* trademark beverages. The *Coca-Cola* trademark beverages include: sparkling beverages (colas and flavored sparkling beverages), waters and still beverages (including juice drinks, coffee, teas, milk, value-added dairy and isotonic drinks).

Coca-Cola FEMSA's most important brand, *Coca-Cola*, together with its main line extensions, accounted for 60.3% of total sales volume in 2016. Coca-Cola FEMSA's next largest brands, *Ciel* (a water brand from Mexico and its line extensions), *Fanta* (and its line extensions), *Del Valle* (and its line extensions) and *Sprite* (and its line extensions) accounted for 11.5%, 4.5%, 4.2% and 2.9%, respectively, of total sales volume in 2016. Coca-Cola FEMSA uses the term line extensions to refer to the different flavors and low-calorie versions in which it offers its brands.

The following table sets forth Coca-Cola FEMSA main products as of December 31, 2016:

|                                      | Mexico and<br>Central<br>America <sup>(1)</sup> | South<br>America <sup>(2)</sup> | Venezuela |
|--------------------------------------|---|---------------------------------|-----------|
| <b>Colas:</b>                        |   |                                 |           |
| <i>Coca-Cola</i>                     |   |                                 |           |
| <i>Coca-Cola Light</i>               |   |                                 |           |
| <i>Coca-Cola Zero</i>                |   |                                 |           |
| <i>Coca-Cola Life</i>                |   |                                 |           |
| <i>Coca-Cola Sin Azúcar</i>          |   |                                 |           |
| <b>Flavored Sparkling Beverages:</b> |   |                                 |           |
| <i>Ameyal</i>                        |   |                                 |           |
| <i>Canada Dry</i>                    |   |                                 |           |
| <i>Chinotto</i>                      |   |                                 |           |
| <i>Crush</i>                         |   |                                 |           |
| <i>Escuis</i>                        |   |                                 |           |
| <i>Fanta</i>                         |   |                                 |           |
| <i>Fresca</i>                        |   |                                 |           |
| <i>Frescolita</i>                    |   |                                 |           |
| <i>Hit</i>                           |   |                                 |           |
| <i>Kist</i>                          |   |                                 |           |
| <i>Kuat</i>                          |   |                                 |           |
| <i>Lift</i>                          |   |                                 |           |
| <i>Limon&amp;Nada</i>                |   |                                 |           |
| <i>Mundet</i>                        |   |                                 |           |
| <i>Naranja&amp;Nada</i>              |   |                                 |           |
| <i>Quatro</i>                        |   |                                 |           |
| <i>Schweppes</i>                     |   |                                 |           |
| <i>Simba</i>                         |   |                                 |           |
| <i>Sprite</i>                        |   |                                 |           |
| <i>Victoria</i>                      |   |                                 |           |
| <i>Yoli</i>                          |   |                                 |           |
| <b>Water:</b>                        |   |                                 |           |
| <i>Alpina</i>                        |   |                                 |           |
| <i>Aquarius<sup>(3)</sup></i>        |   |                                 |           |
| <i>Bonaqua</i>                       |   |                                 |           |
| <i>Brisa</i>                         |   |                                 |           |
| <i>Ciel</i>                          |   |                                 |           |
| <i>Crystal</i>                       |   |                                 |           |
| <i>Dasani</i>                        |   |                                 |           |
| <i>Manantial</i>                     |   |                                 |           |





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|                                      | Mexico and<br>Central<br>America <sup>(1)</sup> | South<br>America <sup>(2)</sup> | Venezuela |
|--------------------------------------|---|---------------------------------|-----------|
| <i>Other Categories:</i>             |   |                                 |           |
| <i>Cepita<sup>(4)</sup></i>          |   |                                 |           |
| <i>Del Prado<sup>(5)</sup></i>       |   |                                 |           |
| <i>Estrella Azul<sup>(6)</sup></i>   |   |                                 |           |
| <i>FUZE Tea</i>                      |   |                                 |           |
| <i>Hi-C<sup>(7)</sup></i>            |   |                                 |           |
| <i>Santa Clara<sup>(8)</sup></i>     |   |                                 |           |
| <i>Jugos del Valle<sup>(4)</sup></i> |   |                                 |           |
| <i>Matte Leão<sup>(9)</sup></i>      |   |                                 |           |
| <i>Powerade<sup>(10)</sup></i>       |   |                                 |           |
| <i>ValleFrut<sup>(11)</sup></i>      |   |                                 |           |
| <i>Monster<sup>(12)</sup></i>        |   |                                 |           |

(1) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama.

(2) Includes Brazil, Colombia and Argentina.

(3) Flavored water. In Brazil, also a flavored sparkling beverage.

(4) Juice-based beverage.

(5) Juice-based beverage in Central America.

(6) Milk and value-added dairy and juices.

(7) Juice-based beverage. Includes Hi-C Orangeade in Argentina.

(8) Milk, value-added dairy and coffee.

(9) Ready to drink tea.

(10) Isotonic drinks.

(11) Orangeade. Includes Del Valle Fresh in Costa Rica, Nicaragua, Panama, Colombia and Venezuela.

(12) Energy drinks in Mexico, Guatemala, Costa Rica, Panama, Brazil and Colombia.

**Packaging**

Coca-Cola FEMSA produces, markets, sells and distributes Coca-Cola trademark beverages in each of its territories in containers authorized by The Coca-Cola Company, which consist of a variety of returnable and non-returnable presentations in the form of glass bottles, cans and plastic bottles mainly made of polyethylene terephthalate, which Coca-Cola FEMSA refers to as PET. Coca-Cola FEMSA uses the term presentation to refer to the packaging unit in which it sells its products. Presentation sizes for Coca-Cola FEMSA's Coca-Cola trademark beverages range from a 6.5-ounce personal size to a 3-liter multiple serving size. For all of Coca-Cola FEMSA's products excluding water, Coca-Cola FEMSA considers a multiple serving size as equal to, or larger than, 1.0 liter. In general, personal sizes have a higher price per unit case as compared to multiple serving sizes. Coca-Cola FEMSA offers both returnable and non-returnable presentations, which allow it to offer portfolio alternatives based on convenience and affordability to implement revenue management strategies and to target specific distribution channels and population segments in its territories. In addition, Coca-Cola FEMSA sells some Coca-Cola trademark beverage syrups in containers designed for soda fountain use, which Coca-Cola FEMSA refers to as fountain. Coca-Cola FEMSA also sells bottled water products in bulk sizes, which refer to presentations equal to or larger than 5.0 liters, which have a much lower average price per unit case than Coca-Cola FEMSA's other beverage products.

**Sales Volume and Transactions Overview**

Coca-Cola FEMSA measures total sales volume in terms of unit cases and number of transactions. Unit case refers to 192 ounces of finished beverage product (24 eight-ounce servings) and, when applied to soda fountains, refers to the volume of syrup, powders and concentrate that is required to produce 192 ounces of finished beverage product. Transactions refers to the number of single units (e.g. a can or a bottle) sold, regardless of their size or volume or whether they are sold individually or in multipacks, except for fountain which represents multiple transactions based on a standard 12 oz. serving. Except when specifically indicated, sales volume in this annual report refers to sales volume in terms of unit cases.

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The characteristics of Coca-Cola FEMSA's territories are very diverse. Central Mexico and Coca-Cola FEMSA's territories in Argentina are densely populated and have a large number of competing beverage brands as compared to the rest of its territories. Coca-Cola FEMSA's territories in Brazil are densely populated but have lower consumption of beverage products as compared to Mexico. Portions of southern Mexico, Central America and Colombia are large and mountainous areas with lower population density, lower per capita income and lower consumption of beverages. In Venezuela, Coca-Cola FEMSA faces operational disruptions from time to time and adverse economic conditions have affected per capita income, both of which have had an adverse effect on Coca-Cola FEMSA's volumes sold.

The following table illustrates Coca-Cola FEMSA's historical sales volume and number of transactions for each of its consolidated reporting segments, as well as its unit case and transaction mix by category.

|   | Year Ended December 31,  |                 |                 |
|---|--|-----------------|-----------------|
|   | 2016   | 2015            | 2014            |
|   | (millions of unit cases or millions of single units, except percentages) |                 |                 |
| <b>Sales Volume</b>                                   |  |                 |                 |
| Mexico and Central America                            | 2,025.6  | 1,952.4         | 1,918.5         |
| South America (excluding Venezuela) <sup>(1)(2)</sup> | 1,165.3  | 1,247.6         | 1,257.7         |
| Venezuela   | 143.1  | 235.6           | 241.1           |
| <b>Total Sales Volume</b>                             | <b>3,334.0</b>   | <b>3,435.6</b>  | <b>3,417.3</b>  |
| Growth  | (3.0)%   | 0.5%            | (0.7)%          |
| <b>Unit Case Mix by Category</b>                      |  |                 |                 |
| Sparkling beverages                                   | 77.7%  | 78.1%           | 78.1%           |
| Water <sup>(3)</sup>                                  | 15.9%  | 15.7%           | 16.0            |
| Still beverages                                       | 6.4%   | 6.2%            | 5.9             |
| <b>Total</b>  | <b>100.0%</b>  | <b>100.0%</b>   | <b>100.0%</b>   |
| <b>Number of Transactions</b>                         |  |                 |                 |
| Mexico and Central America                            | 11,382.1   | 10,877.1        | 10,622.9        |
| South America (excluding Venezuela) <sup>(1)(2)</sup> | 7,619.7  | 8,084.4         | 8,140.5         |
| Venezuela   | 772.6  | 1,318.1         | 1,367.7         |
| <b>Total Number of Transactions</b>                   | <b>19,774.4</b>  | <b>20,279.6</b> | <b>20,131.1</b> |
| Growth  | (2.5)%   | 0.7%            |                 |
| <b>Transaction Mix by Category</b>                    |  |                 |                 |
| Sparkling beverages                                   | 81.1%  | 81.3%           | 81.8%           |
| Water <sup>(3)</sup>                                  | 8.7%   | 8.6%            | 8.5%            |
| Still beverages                                       | 10.2%  | 10.1%           | 9.7%            |
| <b>Total</b>  | <b>100.0%</b>  | <b>100.0%</b>   | <b>100.0%</b>   |

(1) Includes sales volume and transactions from the operations of Vonpar from December 2016.

(2) Excludes beer sales volume and transactions.

(3) Includes bulk water volume and transactions.

Total sales volume decreased by 3.0% to 3,334.0 million unit cases in 2016 as compared to 2015, as a result of the sales volume contraction in Brazil, Colombia, Argentina and Venezuela discussed below. Excluding the effects of Coca-Cola FEMSA's recent acquisition of Vonpar and the results of its operations in Venezuela, total sales volume would have decreased by 0.9% in 2016 as compared to 2015. Sales volume of Coca-Cola FEMSA's sparkling beverage portfolio decreased by 3.4% as compared to 2015. Excluding the effects of Coca-Cola FEMSA's recent

acquisition of Vonpar and the results of its operations in Venezuela, sales volume of its sparkling beverage portfolio would have decreased by 1.0%, mainly as a result of a contraction in Brazil and Colombia, which was partially offset by the positive performance of the *Coca-Cola* brand in Mexico, Central America and Colombia, and Coca-Cola FEMSA's flavored sparkling beverage portfolio in Mexico and Central America. Sales volume of Coca-Cola FEMSA's still beverage portfolio decreased by 0.6% as compared to 2015. Excluding the effects of Coca-Cola FEMSA's recent acquisition of Vonpar and the results of its operations in Venezuela, sales volume of its still beverage portfolio would have grown 2.9% mainly driven by the positive performance of *ValleFrut* orangeade, *Del Valle* juice and the Santa Clara dairy business in Mexico and *Fuze tea* in Central America. Sales volume of bottled water, excluding bulk water, decreased by 1.2% as compared to 2015. Excluding the effects of Coca-Cola FEMSA's recent acquisition of Vonpar and the results of its operations in Venezuela, bottled water, excluding bulk water, would have decreased by 1.1%, driven by a contraction in Brazil and Colombia, which was partially offset by increased volume in Mexico and Argentina. Sales volume of bulk water decreased by 2.0% as compared to 2015. Excluding the effects of Coca-Cola FEMSA's recent acquisition of Vonpar and the results of its operations in Venezuela, sales volume of bulk water would have decreased by 1.9%, mainly driven by a sales volume contraction of the *Brisa* and *Crystal* brand products in Colombia and Brazil, respectively.

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The total number of transactions in 2016 decreased by 2.5% to 19,774.4 million transactions as compared to 2015. Excluding the effect of Coca-Cola FEMSA's recent acquisition of Vonpar and the results of its operations in Venezuela, the total number of transactions in 2016 would have decreased by 0.3% to 18,902.4 million as compared to 2015. On the same basis, total transactions for Coca-Cola FEMSA's sparkling beverage portfolio in 2016 would have decreased by 0.6% as compared to 2015, mainly driven by a contraction in Brazil, Colombia and Argentina, which was partially offset by the positive performance in Mexico and Central America. Total transactions for Coca-Cola FEMSA's still beverage category, excluding the effect of its recent acquisition of Vonpar and the results of its operations in Venezuela, would have grown 2.6% as compared to 2015, mainly driven by the positive performance in Mexico and Central America. On the same basis, total transactions for bottled water, including bulk water, would have decreased by 1.1% as compared to 2015, driven by a contraction in Brazil, which was partially offset by the positive performance in Mexico, Central America and Colombia.

In 2016, multiple serving presentations represented 69.1% of total sparkling beverages sales volume, a 70 basis points increase as compared to 2015. Returnable packaging, as a percentage of total sparkling beverage sales volume accounted for 29.1%, a 90 basis points decrease as compared to 2015.

Total sales volume increased 0.5% to 3,435.6 million unit cases in 2015, as compared to 2014. Excluding the results of Coca-Cola FEMSA's Venezuelan operations, total volume would have grown 0.7% in 2015, as compared to 2014. Our sparkling beverage portfolio grew 0.5% as compared to 2014. Excluding the effect of Coca-Cola FEMSA's Venezuelan operations, the sparkling beverage portfolio would have grown 0.7% as a result of positive performance of the *Coca-Cola* brand in Mexico, Colombia and Central America, and Coca-Cola FEMSA's flavored sparkling beverage portfolio in Mexico, Colombia, Argentina and Central America. The still beverage category grew 4.9% as compared to 2014. Excluding the effect of Coca-Cola FEMSA's Venezuelan operations, the still beverage category would have grown 6.5% driven by the positive performance of Jugos del Valle juice in Colombia, Mexico and Central America; *ValleFrut* orangeade in Mexico and Brazil; the *Powerade* brand across most of Coca-Cola FEMSA's territories and the Santa Clara dairy business in Mexico. Bottled water, excluding bulk water, grew 2.3% as compared to 2014. Excluding the effect of Coca-Cola FEMSA's Venezuelan operations, bottled water, excluding bulk water, would have grown 1.8%, driven by growth in Colombia, Argentina, Brazil and Central America. Bulk water decreased 2.9% as compared to 2014, mainly driven by a contraction of the *Ciel* brand in Mexico.

The total number of transactions in 2015 increased by 0.7% to 20,279.6 million transactions as compared to 2014. Excluding the results of Coca-Cola FEMSA's operations in Venezuela, the total number of transactions in 2016 would have increased by 1.1% to 18,961.5 million as compared to 2014. On the same basis, total transactions for Coca-Cola FEMSA's sparkling beverage portfolio in 2015 would have increased by 0.4% as compared to 2014, mainly driven by an increase in the number of transactions in Mexico, Central America, Colombia and Argentina. Total transactions for Coca-Cola FEMSA's still beverage category, excluding the results of its operations in Venezuela, would have grown 6.0% as compared to 2014, mainly driven by Colombia, Mexico and Argentina. On the same basis, total transactions for bottled water, including bulk water, would have increased by 1.6% as compared to 2014, driven by an increase in the number of transactions in Colombia and Argentina.

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In 2015, multiple serving presentations represented 69.9% of total sparkling beverages sales volume, a 8 basis points increase as compared to 2014. Returnable packaging, as a percentage of total sparkling beverage sales volume accounted for 28.2%, a 7 basis points increase as compared to 2014.

The following discussion analyzes Coca-Cola FEMSA's historical sales volume, number of transactions and unit case and transaction mix by category for each of its consolidated reporting segments.

**Mexico and Central America.** Coca-Cola FEMSA's product portfolio consists of *Coca-Cola* trademark beverages, including the *Jugos del Valle* line of juice-based beverages.

The following table highlights historical sales volume, number of transactions and unit case and transaction mix by category in Mexico and Central America:

|                                    | Year Ended December 31,  |          |          |
|------------------------------------|--|----------|----------|
|                                    | 2016   | 2015     | 2014     |
|                                    | (millions of unit cases or millions of single units, except percentages) |          |          |
| <b>Sales Volume</b>                |  |          |          |
| Mexico                             | 1,850.7  | 1,784.6  | 1,754.9  |
| Central America <sup>(1)</sup>     | 174.9  | 167.8    | 163.6    |
| Total Sales Volume                 | 2,025.6  | 1,952.4  | 1,918.5  |
| Growth                             | 3.7%   | 1.8%     | (1.8)%   |
| <b>Unit Case Mix by Category</b>   |  |          |          |
| Sparkling beverages                | 74.1%  | 74.0%    | 73.2%    |
| Water <sup>(1)</sup>               | 19.6%  | 20.2%    | 21.3%    |
| Still beverages                    | 6.2%   | 5.8%     | 5.5%     |
| Total                              | 100.0%   | 100.0%   | 100.0%   |
| <b>Number of Transactions</b>      |  |          |          |
| Mexico                             | 9,884.1  | 9,429.1  | 9,214.0  |
| Central America <sup>(1)</sup>     | 1,498.0  | 1,448.0  | 1,409.0  |
| Total Number of Transactions       | 11,382.1   | 10,877.1 | 10,623.0 |
| Growth                             | 4.6%   | 2.4%     |          |
| <b>Transaction Mix by Category</b> |  |          |          |
| Sparkling beverages                | 82.9%  | 83.1%    | 82.9%    |
| Water <sup>(1)</sup>               | 6.9%   | 7.0%     | 7.6%     |
| Still beverages                    | 10.2%  | 9.9%     | 9.5%     |
| Total                              | 100.0%   | 100.0%   | 100.0%   |

(1) Includes Guatemala, Nicaragua, Costa Rica and Panama.

(2) Includes bulk water volumes and transactions.

Total sales volume in Coca-Cola FEMSA's Mexico and Central America consolidated reporting segment increased by 3.7% to 2,025.6 million unit cases in 2016 as compared to 2015, as a result of volume increase in both Mexico and Central America as discussed below. Sales volume of Coca-Cola FEMSA's sparkling beverage portfolio increased by 3.9%, mainly driven by a 2.8% increase in sales volume of *Coca-Cola* brand products and an 8.3% increase in sales volume of Coca-Cola FEMSA's flavored sparkling beverage portfolio. Sales volume of Coca-Cola

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FEMSA's still beverage portfolio increased by 11.8%, mainly due to the performance of the Jugos del Valle portfolio and Coca-Cola FEMSA's Santa Clara dairy business in Mexico. Sales volume of bottled water, including bulk water, increased by 0.7%, mainly driven by an increase in sales volume of *Ciel* flavored water products in Mexico.

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Sales volume in Mexico increased by 3.7% to 1,850.7 million unit cases in 2016, as compared to 1,784.6 million unit cases in 2015. Sales volume of Coca-Cola FEMSA's sparkling beverage portfolio increased by 3.8%, driven by a 2.7% increase in sales volume of *Coca-Cola* brand products and a 9.1% increase in sales volume of Coca-Cola FEMSA's flavored sparkling beverage portfolio, mainly supported by the performance of *Naranja&Nada* and *Limon&Nada*, Coca-Cola FEMSA's sparkling orangeade and lemonade, and the *Mundet* brand. Sales volume of Coca-Cola FEMSA's still beverage portfolio increased by 14.2%, mainly as a result of the performance of *ValleFrut* brand products, the *Del Valle* juice portfolio and Coca-Cola FEMSA's Santa Clara dairy business. Sales volume of bottled water, including bulk water, increased by 0.7%, mainly driven by the performance of *Ciel Exprim* flavored water products.

Sales volume in Central America increased by 4.2% to 174.9 million unit cases in 2016, as compared to 167.8 million unit cases in 2015. Sales volume of Coca-Cola FEMSA's sparkling beverage portfolio increased by 5.0%, supported by the strong performance of *Coca-Cola* brand products and Coca-Cola FEMSA's flavored sparkling beverages portfolio in Guatemala, Nicaragua and Costa Rica. Sales volume of Coca-Cola FEMSA's still beverage portfolio decreased slightly by 0.3%. Sales volume of bottled water, including bulk water, increased by 1.7%.

The total number of transactions in 2016 in Coca-Cola FEMSA's Mexico and Central America division increased by 4.6% to 11,382.1 million transactions as compared to 2015. The number of transactions for Coca-Cola FEMSA's sparkling beverage portfolio in 2016 increased by 4.3% as compared to 2015, driven by the positive performance of the *Coca-Cola* brand and Coca-Cola FEMSA's flavored sparkling beverage portfolio. Transactions for Coca-Cola FEMSA's still beverage category in 2016 increased by 8.3% as compared to 2015. Transactions for bottled water, including bulk water, in 2016 increased by 3.2% as compared to 2015.

In 2016, the total number of transactions in Mexico and Central America increased by 4.8% to 9,884.1 million, and by 3.4% to 1,498.0 million, respectively, as compared to 2015. The number of transactions for Coca-Cola FEMSA's sparkling beverage portfolio increased by 4.5% and 3.1%, respectively, as compared to 2015. Transactions for Coca-Cola FEMSA's still beverage category increased by 9.2% and 4.9%, respectively, as compared to 2015. Transactions for bottled water, including bulk water, increased by 3.1% and 3.8%, respectively, as compared to 2015.

In 2016, multiple serving presentations represented 64.7% of total sparkling beverages sales volume in Mexico, a 10 basis points increase as compared to 2015; and 53.4% of total sparkling beverages sales volume in Central America, a 160 basis points decrease as compared to 2015. Coca-Cola FEMSA strategy continues to be to encourage consumption of single serve presentations while maintaining multiple serving volumes. In 2016, returnable packaging, as a percentage of total sparkling beverage sales volume accounted for 35.1% in Mexico, a 140 basis points decrease as compared to 2015; and 39.7% in Central America, a 210 basis points increase as compared to 2015.

Total sales volume in Coca-Cola FEMSA's Mexico and Central America consolidated reporting segment increased by 1.8% to 1,952.4 million unit cases in 2015 as compared to 2014. Sales volume of Coca-Cola FEMSA's sparkling beverage portfolio increased by 3.0%, mainly driven by 2.4% increase in sales volume of *Coca-Cola* brand products and a 5.5% increase in sales volume of Coca-Cola FEMSA's flavored sparkling beverage portfolio. Sales volume of Coca-Cola FEMSA's still beverage portfolio increased by 6.8%, mainly due to the performance of the *Jugos del Valle* portfolio, the *Powerade* brand and Coca-Cola FEMSA's Santa Clara dairy business in Mexico. Sales volume of bottled water, including bulk water, decreased by 3.5% driven by a volume contraction of *Ciel* brand products in Mexico.

Sales volume in Mexico increased by 1.7% to 1,784.6 million unit cases in 2015, as compared to 1,754.9 million unit cases in 2014. Sales volume of Coca-Cola FEMSA's sparkling beverage portfolio increased by 3.1%, driven by a 2.6% increase in sales volume of *Coca-Cola* brand products and a 5.7% increase in sales volume of Coca-Cola FEMSA's flavored sparkling beverage portfolio, mainly supported by the performance of *Mundet*, *Fanta* and the introduction of *Naranja&Nada* and *Limon&Nada*, Coca-Cola FEMSA's sparkling orangeade and lemonade. Sales volume of Coca-Cola FEMSA's still beverage portfolio increased by 5.3%, mainly as a result of the performance of the *Del Valle* portfolio, the *Powerade* brand and Coca-Cola FEMSA's Santa Clara dairy business. Sales volume of bottled water, including bulk water, decreased by 3.7%, driven by a volume contraction of *Ciel* brand products in Mexico.

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Sales volume in Central America increased by 2.6% to 167.8 million unit cases in 2015, as compared to 163.6 million unit cases in 2014. Sales volume of Coca-Cola FEMSA's sparkling beverage portfolio increased by 1.0% supported by the strong performance of *Coca-Cola* brand products and Coca-Cola FEMSA's flavored sparkling beverages portfolio in Nicaragua and Panama. Sales volume of Coca-Cola FEMSA's still beverage portfolio increased by 15.6%, due to the performance of the *Powerade* brand in Central America, *Fuze tea* in Costa Rica and *Hi-C* juice in Nicaragua. Sales volume of bottled water, including bulk water, increased 7.6% across the region.

The total number of transactions in 2015 in Coca-Cola FEMSA's Mexico and Central America division increased by 2.4% to 10,877.1 million transactions as compared to 2014. The number of transactions for Coca-Cola FEMSA's sparkling beverage portfolio in 2015 increased by 2.8% as compared to 2014, mainly driven by a 2.9% increase in Mexico. Transactions for Coca-Cola FEMSA's still beverage category in 2015 increased by 6.1% as compared to 2014. Transactions for bottled water, including bulk water, in 2015 decreased by 6.4% as compared to 2014, driven by a 7.4% contraction in Mexico.

In 2015, the total number of transactions in Mexico and Central America increased by 2.3% to 9,429.1 million, and by 2.8% to 1,448.0 million, respectively, as compared to 2014. The number of transactions for Coca-Cola FEMSA's sparkling beverage portfolio increased by 2.8% and 2.1%, respectively, as compared to 2014. Transactions for Coca-Cola FEMSA's still beverage category increased by 6.4% and 4.8%, respectively, as compared to 2014. Transactions for bottled water, including bulk water, decreased by 7.4% in Mexico and increased by 7.6% in Central America, as compared to 2014.

In 2015, multiple serving presentations represented 64.6% of total sparkling beverages sales volume in Mexico, a 10 basis points increase as compared to 2014; and 55.0% of total sparkling beverages sales volume in Central America, a 10 basis points decrease as compared to 2014. In 2015, returnable packaging, as a percentage of total sparkling beverage sales volume accounted for 36.5% in Mexico, a 140 basis points decrease as compared to 2014; and 37.6% in Central America, a 280 basis points increase as compared to 2014.

**South America (Excluding Venezuela).** Coca-Cola FEMSA's product portfolio in South America (excluding Venezuela) consists mainly of *Coca-Cola* trademark beverages, including the *Jugos del Valle* line of juice-based beverages in Colombia and Brazil, and *Heineken* beer products, including *Kaiser* beer brands, in Brazil, which Coca-Cola FEMSA sells and distributes pursuant to its arrangements in place since 2003 with Cervejarias Kaiser, a subsidiary of the Heineken Group. Since 2005, Coca-Cola FEMSA stopped considering beer sold and distributed in Brazil as part of its sales volume.

The following table highlights historical sales volume, number of transactions and unit case and transaction mix by category in South America (excluding Venezuela), not including beer:

|                                  | Year Ended December 31,                |         |         |
|----------------------------------|--|---------|---------|
|                                  | 2016                                   | 2015    | 2014    |
|                                  | (millions of unit cases or millions of |         |         |
|                                  | single units, except percentages)      |         |         |
| <b>Sales Volume</b>              |  |         |         |
| Brazil <sup>(1)</sup>            | 649.2                                  | 693.6   | 733.5   |
| Colombia                         | 307.0                                  | 320.0   | 298.4   |
| Argentina                        | 209.1                                  | 233.9   | 225.8   |
| Total Sales Volume               | 1,165.3                                | 1,247.6 | 1,257.7 |
| Growth                           | (6.6)%                                 | (0.8)%  | 22.6%   |
| <b>Unit Case Mix by Category</b> |  |         |         |
| Sparkling beverages              | 83.0%                                  | 82.8%   | 84.1%   |
| Water <sup>(2)</sup>             | 10.3%                                  | 10.4%   | 9.7%    |
| Still beverages                  | 6.7%                                   | 6.8%    | 6.2%    |
| Total                            | 100.0%                                 | 100.0%  | 100.0%  |



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|                                     | Year Ended December 31,   |                |                |
|-------------------------------------|---|----------------|----------------|
|                                     | 2016  | 2015           | 2014           |
|                                     | (millions of unit cases or millions of<br>single units, except percentages) |                |                |
| <b>Number of Transactions</b>       |   |                |                |
| Brazil <sup>(1)</sup>               | 4,206.1   | 4,578.6        | 4,902.3        |
| Colombia                            | 2,400.9   | 2,410.7        | 2,199.8        |
| Argentina                           | 1,012.6   | 1,095.0        | 1,038.4        |
| <b>Total Number of Transactions</b> | <b>7,619.6</b>  | <b>8,084.3</b> | <b>8,140.5</b> |
| Growth                              | (5.7)%  | (0.7)%         |                |
| <b>Transaction Mix by Category</b>  |   |                |                |
| Sparkling beverages                 | 79.0%   | 79.4%          | 81.0%          |
| Water <sup>(2)</sup>                | 10.7%   | 10.5%          | 9.5%           |
| Still beverages                     | 10.3%   | 10.1%          | 9.5%           |
| <b>Total</b>                        | <b>100.0%</b>   | <b>100.0%</b>  | <b>100.0%</b>  |

(1) Includes sales volume and transactions from the operations of Vonpar from December 2016.

(2) Includes bulk water volumes and transactions.

Total sales volume in Coca-Cola FEMSA's South America (excluding Venezuela) consolidated reporting segment decreased by 6.6% to 1,165.3 million unit cases in 2016 as compared to 2015. Excluding the effects of Coca-Cola FEMSA's recent acquisition of Vonpar, total sales volume would have decreased by 8.2% to 1,145.7 million unit cases in 2016 as compared to 2015, as a result of volume contraction in all of Coca-Cola FEMSA's South America operations. On the same basis, sales volume of Coca-Cola FEMSA's sparkling beverage portfolio decreased by 8.0%, mainly due to a volume contraction of *Coca-Cola* brand products in Brazil and Argentina and flavored sparkling beverages in all Coca-Cola FEMSA's territories in this division. Excluding the effects of Coca-Cola FEMSA's recent acquisition of Vonpar, sales volume of Coca-Cola FEMSA's still beverage portfolio decreased by 8.9%, mainly driven by a sales volume contraction of the *Jugos del Valle* line of business in Colombia and *Kapo* and *Del Valle Mais* brand products in Brazil. On the same basis, sales volume of bottled water, including bulk water, decreased by 8.7%, mainly due to a sales volume contraction of *Brisa* brand products in Colombia and *Crystal* brand products in Brazil.

Sales volume in Brazil decreased by 6.4% to 649.2 million unit cases in 2016, as compared to 693.6 million unit cases in 2015. Excluding the effects of Coca-Cola FEMSA's recent acquisition of Vonpar, sales volume would have decreased by 9.2% to 629.7 million unit cases. On the same basis, sales volume of Coca-Cola FEMSA's sparkling beverage portfolio decreased by 9.0%, mainly as a result of a sales volume decrease in *Coca-Cola* brand products. Excluding the effects of Coca-Cola FEMSA's recent acquisition of Vonpar, sales volume of Coca-Cola FEMSA's still beverage portfolio decreased by 7.2%, mainly as a result of a sales volume contraction of *Kapo* and *Del Valle Mais* brand products. On the same basis, sales volume of bottled water, including bulk water, decreased by 13.1%, mainly due to a sales volume contraction of *Crystal* brand products.

Sales volume in Colombia decreased by 4.1% to 307.0 million unit cases in 2016, as compared to 320.0 million unit cases in 2015. Sales volume of Coca-Cola FEMSA's sparkling beverage portfolio decreased by 0.7%, mainly driven by a 9.4% decrease in sales volume of Coca-Cola FEMSA's flavored sparkling beverages portfolio, which was partially offset by a 1.9% sales volume increase of *Coca-Cola* brand products. Sales volume of Coca-Cola FEMSA's still beverage portfolio decreased by 13.6%, mainly as a result of a sales volume contraction of *Del Valle* and *ValleFrut* brand products. Sales volume of bottled water, including bulk water, decreased by 11.8%, driven by a sales volume contraction of *Brisa* brand products in multiple serving presentations.

Sales volume in Argentina decreased by 10.6% to 209.1 million unit cases in 2016, as compared to 233.9 million unit cases in 2015. Sales volume of Coca-Cola FEMSA's sparkling beverage portfolio decreased by 13.6%, mainly driven by a decrease in sales volume of *Coca-Cola* brand products and Coca-Cola FEMSA's flavored sparkling beverage portfolio. Sales volume of Coca-Cola FEMSA's still beverage portfolio decreased by 0.6%, mainly driven by a decrease in sales volume of *Cepita* and *Powerade* brand products. Sales volume of bottled water, including bulk water, increased by 6.9%, mainly driven by an increase in sales volume of *Kin* and *Bonaqua* brand products.



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The total number of transactions in 2016 in Coca-Cola FEMSA's South America (excluding Venezuela) division decreased by 5.7% to 7,619.7 million transactions as compared to 2015. Excluding the effect of Coca-Cola FEMSA's recent acquisition of Vonpar, the total number of transactions in 2016 in this division would have decreased by 7.0% to 7,520.3 million. On the same basis, the number of transactions for Coca-Cola FEMSA's sparkling beverage portfolio in 2016 decreased by 7.5% as compared to 2015, driven by a contraction in the number of transactions across all Coca-Cola FEMSA's territories in the division. Excluding the effects of Coca-Cola FEMSA's recent acquisition of Vonpar, transactions for Coca-Cola FEMSA's still beverage category in 2016 decreased by 4.8% as compared to 2015. On the same basis, transactions for bottled water, including bulk water, in 2016 decreased by 5.0% as compared to 2015.

In 2016, the total number of transactions in Brazil, Colombia and Argentina decreased by 8.1% to 4,206.1 million, 0.4% to 2,400.9 million and 7.5% to 1,012.6 million, respectively, as compared to 2015. Excluding the effect of Coca-Cola FEMSA's recent acquisition of Vonpar, the total number of transactions in Brazil in 2016 would have decreased by 10.3% to 4,106.7 million. On the same basis, the number of transactions for Coca-Cola FEMSA's sparkling beverage portfolio in Brazil, Colombia and Argentina in 2016 decreased by 10.0%, 1.2% and 9.2%, respectively, as compared to 2015. Excluding the effects of Coca-Cola FEMSA's recent acquisition of Vonpar, transactions for Coca-Cola FEMSA's still beverage category in 2016 decreased by 10.3% and 0.5% in Brazil and Argentina, respectively, and increased by 0.5% in Colombia, in each case as compared to 2015. On the same basis, the number of transactions for bottled water, including bulk water, in 2016 decreased by 13.6% and 1.1% in Brazil and Argentina, respectively, and increased by 2.7% in Colombia, in each case as compared to 2015.

In 2016, multiple serving presentations represented 76.3% of total sparkling beverages sales volume in Brazil, a 66 basis points increase as compared to 2015; 69.3% of total sparkling beverages sales volume in Colombia, a 121 basis points decrease as compared to 2015; and 82.7% of total sparkling beverages sales volume in Argentina, a 178 basis points decrease as compared to 2015. In 2016, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 18.1% in Brazil a 120 basis points increase as compared to 2015; 29.9% in Colombia, an increase of 80 basis points as compared to 2015; and 23.9% in Argentina, an increase of 150 basis points as compared to 2015.

Total sales volume in Coca-Cola FEMSA's South America (excluding Venezuela) consolidated reporting segment decreased by 0.8% to 1,247.6 million unit cases in 2015 as compared to 2014, as a result of a volume contraction in Brazil which was partially offset by volume growth in Colombia and Argentina. Sales volume of Coca-Cola FEMSA's sparkling beverage portfolio decreased by 2.3% mainly driven by the volume contraction in Brazil. Sales volume of our still beverage portfolio increased by 7.5% mainly driven by the Jugos del Valle line of business in Colombia and the *Cepita* and *Hi-C* brands in Argentina. Sales volume of bottled water, including bulk water, increased by 7.5% driven by the performance of the *Crystal* brand in Brazil, the *Manantial* and *Brisa* brands in Colombia and the *Aquarius*, *Kin* and *Bonaqua* brands in Argentina.

Sales volume in Brazil decreased by 5.4% to 693.6 million unit cases in 2015, as compared to 733.5 million unit cases in 2014. Sales volume of Coca-Cola FEMSA's sparkling beverage portfolio decreased by 5.8%, mainly as a result of a volume contraction in the *Coca-Cola* brand products. Sales volume of Coca-Cola FEMSA's still beverage portfolio decreased by 8.8%, mainly as a result of a volume contraction in *Del Valle Mais* brand products. Sales volume of bottled water, including bulk water, increased by 1.2%, mainly driven by a sales volume increase in *Crystal* brand products.

Sales volume in Colombia increased by 7.2% to 320.0 million unit cases in 2015, as compared to 298.4 million unit cases in 2014. Sales volume of Coca-Cola FEMSA's sparkling beverage portfolio increased by 6.2%, mainly driven by a 3.7% volume increase of *Coca-Cola* brand products, and a 14.2% volume increase of Coca-Cola FEMSA's flavored sparkling beverages portfolio. Sales volume of Coca-Cola FEMSA's still beverage portfolio increased by 19.1%, mainly driven by volume increase of *Del Valle Fresh* and *Fuze tea* brand products. Sales volume of bottled water, including bulk water, increased by 5.8%, mainly driven by a volume increase in *Manantial* and *Brisa* brand products in single serve presentations.

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Sales volume in Argentina increased by 3.6% to 233.9 million unit cases in 2015, as compared to 225.8 million unit cases in 2014. Sales volume of Coca-Cola FEMSA's sparkling beverage portfolio decreased by 0.2%, mainly driven by a volume decrease in *Coca-Cola* brand products, which was mostly offset by the performance of the *Sprite* and *Schweppes* brands. Sales volume of Coca-Cola FEMSA's still beverage portfolio increased by 31.9%, mainly driven by a volume increase in *Hi-C*, *Cepita* and *Powerade* brand products. Sales volume of bottled water, including bulk water, increased by 28.0%, mainly driven by a volume increase in *Aquarius*, *Kin* and *Bonaqua* brand products.

The total number of transactions in 2015 in Coca-Cola FEMSA's South America (excluding Venezuela) division decreased by 0.7% to 8,084.3 million transactions as compared to 2014. The number of transactions for Coca-Cola FEMSA's sparkling beverage portfolio in 2015 decreased by 2.7% as compared to 2014, driven by a 6.4% contraction in the number of transactions in Brazil, which was partially offset by an increase in the number of transactions in Colombia and Argentina. Transactions for Coca-Cola FEMSA's still beverage category in 2015 increased by 5.9% as compared to 2014. Transactions for bottled water, including bulk water, in 2015 increased by 10.0% as compared to 2014.

In 2015, the total number of transactions in Brazil decreased by 6.6% to 4,578.6 million, and the total number of transactions in Colombia and Argentina increased by 9.6% to 2,410.7 million and 5.5% to 1,095.0 million, respectively, in each case as compared to 2014. The number of transactions for Coca-Cola FEMSA's sparkling beverage portfolio in 2015 decreased by 6.4% in Brazil and increased by 3.7% and 2.1% in Colombia and Argentina, respectively, in each case as compared to 2014. Transactions for Coca-Cola FEMSA's still beverage portfolio in 2015 increased by 34.7% and 24.1% in Colombia and Argentina, respectively, and decreased by 12.8% in Brazil, in each case as compared to 2014. The number of transactions for bottled water, including bulk water, in 2015 increased by 21.8% and 20.4% in Colombia and Argentina, respectively, and decreased by 1.8% in Brazil, in each case as compared to 2014.

In 2015, multiple serving presentations represented 75.7% of total sparkling beverages sales volume in Brazil, a 70 basis points increase as compared to 2014; 70.6% of total sparkling beverages sales volume in Colombia, a 79 basis points decrease as compared to 2014; and 84.5% of total sparkling beverages sales volume in Argentina, a 76 basis points decrease as compared to 2014. In 2015, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 16.9% in Brazil, an increase of 140 basis points as compared to 2014; 29.1% in Colombia, a decrease of 290 basis points as compared to 2014; and 22.4% in Argentina, an increase of 270 basis points as compared to 2014.

**Venezuela.** Coca-Cola FEMSA's product portfolio in Venezuela consists of *Coca-Cola* trademark beverages. Coca-Cola FEMSA has implemented a product portfolio rationalization strategy that allows it to minimize the impact of certain operating disruptions that have been recurrent in Venezuela over the last several years related to difficulties in accessing raw materials due to the delay in obtaining the corresponding import authorizations and the Venezuelan exchange controls.

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The following table highlights historical sales volume, number of transactions and unit case and transaction mix by category in Venezuela:

|                                    | Year Ended December 31,   |         |         |
|------------------------------------|---|---------|---------|
|                                    | 2016  | 2015    | 2014    |
|                                    | (millions of unit cases or millions of<br>single units, except percentages) |         |         |
| <b>Sales Volume</b>                |   |         |         |
| Total                              | 143.1   | 235.6   | 241.1   |
| Growth                             | (39.3)%   | (2.3)%  | 8.2%    |
| <b>Unit Case Mix by Category</b>   |   |         |         |
| Sparkling beverages                | 83.8%   | 86.2%   | 85.7%   |
| Water <sup>(1)</sup>               | 10.0%   | 6.8%    | 6.5%    |
| Still beverages                    | 6.2%  | 7.0%    | 7.8%    |
| Total                              | 100.0%  | 100.0%  | 100.0%  |
| <b>Number of Transactions</b>      |   |         |         |
| Total                              | 772.6   | 1,318.1 | 1,367.7 |
| Growth                             | (41.4)%   | (3.6)%  |         |
| <b>Transaction Mix by Category</b> |   |         |         |
| Sparkling beverages                | 75.0%   | 79.0%   | 78.7%   |
| Water <sup>(1)</sup>               | 15.3%   | 9.7%    | 8.9%    |
| Still beverages                    | 9.7%  | 11.3%   | 12.4%   |
| Total                              | 100.0%  | 100.0%  | 100.0%  |

(1) Includes bulk water volumes and transactions.

Total sales volume in Venezuela decreased by 39.3% to 143.1 million unit cases in 2016 as compared to 2015, mainly due to an overall sales volume contraction in all Coca-Cola FEMSA's categories as a result of the scarcity of raw materials and demand for its products. Sales volume of Coca-Cola FEMSA's sparkling beverage portfolio decreased by 41.0%. Sales volume of Coca-Cola FEMSA's still beverage portfolio decreased by 46.4%. Sales volume of bottled water, including bulk water, decreased by 10.0%.

The number of transactions in 2016 in Venezuela decreased by 41.4% to 772.6 million transactions as compared to 2015. The number of transactions for our sparkling beverage portfolio in 2016 decreased by 44.4% as compared to 2015, mainly driven by a contraction in the number of transactions of *Coca-Cola* brand products and Coca-Cola FEMSA's flavored sparkling beverage portfolio. Transactions for Coca-Cola FEMSA's still beverage category in 2016 decreased by 49.6% as compared to 2015. Transactions for bottled water, including bulk water, in 2016 decreased by 7.2% as compared to 2015.

In 2016, multiple serving presentations represented 85.0% of total sparkling beverages sales volume in Venezuela, a 260 basis points increase as compared to 2015. In 2016, returnable presentations represented 6.5% of total sparkling beverages sales volume in Venezuela, a decrease of 40 basis points as compared to 2015.

Total sales volume in Venezuela decreased by 2.3% to 235.6 million unit cases in 2015 as compared to 2014. Sales volume of Coca-Cola FEMSA's sparkling beverage portfolio decreased by 2.1%, driven by a volume contraction in Coca-Cola FEMSA's flavored sparkling beverage portfolio, which was partially offset by a 3.4% volume increase of *Coca-Cola* brand products. Sales volume of Coca-Cola FEMSA's still beverage portfolio decreased by 11.3%, mainly as a result of a volume decrease in *Del Valle* brand products. Sales volume of bottled water, including bulk water, increased by 6.1% mainly driven by a volume increase of *Nevada* brand products.

The number of transactions in 2015 in Venezuela decreased by 3.6% to 1,318.1 million transactions as compared to 2014. The number of transactions for Coca-Cola FEMSA's sparkling beverage portfolio in 2015 decreased by 3.2% as compared to 2014, mainly driven by a contraction of 8.7% in the number of transactions of Coca-Cola FEMSA's flavored sparkling beverage products. Transactions for Coca-Cola

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FEMSA's still beverage category in 2015 decreased by 12.5% as compared to 2014. Transactions for bottled water, including bulk water, increased by 5.3% as compared to 2014.

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In 2015, multiple serving presentations represented 82.4% of total sparkling beverages sales volume in Venezuela, a 50 basis points increase as compared to 2014. In 2015, returnable presentations represented 6.9% of total sparkling beverages sales volume in Venezuela, which remained flat as compared to 2014.

### **Seasonality**

Sales of Coca-Cola FEMSA's products are seasonal in all of the countries where it operates, as its sales volumes generally increase during the summer of each country and during the year-end holiday season. In Mexico, Central America, Colombia and Venezuela, Coca-Cola FEMSA typically achieves its highest sales during the summer months of April through September as well as during the year-end holidays in December. In Brazil and Argentina, Coca-Cola FEMSA's highest sales levels occur during the summer months of October through March and the year-end holidays in December.

### **Marketing**

Coca-Cola FEMSA, in conjunction with The Coca-Cola Company, has developed a marketing strategy to promote the sale and consumption of its products. Coca-Cola FEMSA relies extensively on advertising, sales promotions and retailer support programs to target the particular preferences of its consumers. Coca-Cola FEMSA's consolidated marketing expenses in 2016, net of contributions by The Coca-Cola Company, were Ps.5,030 million. The Coca-Cola Company contributed an additional Ps.4,518 million in 2016, which mainly includes contributions for coolers, bottles and cases. Through the use of advanced information technology, Coca-Cola FEMSA has collected customer and consumer information that allow it to tailor its marketing strategies to target different types of customers located in each of its territories and to meet the specific needs of the various markets it serves.

**Retailer Support Programs.** Support programs include providing retailers with point-of-sale display materials and consumer sales promotions, such as contests, sweepstakes and the giveaway of product samples.

**Coolers.** Coolers play an integral role in Coca-Cola FEMSA's clients' plans for success. Increasing both cooler coverage and the number of cooler doors among Coca-Cola FEMSA's retailers is important to ensure that Coca-Cola FEMSA's wide variety of products are properly displayed, while strengthening Coca-Cola FEMSA's merchandising capacity in the traditional sales channel to significantly improve its point-of-sale execution.

**Advertising.** Coca-Cola FEMSA advertises in all major communications media. Coca-Cola FEMSA focuses its advertising efforts on increasing brand recognition by consumers and improving its customer relations. National advertising campaigns are designed and proposed by The Coca-Cola Company's local affiliates in the countries where Coca-Cola FEMSA operates, with Coca-Cola FEMSA's input at the local or regional level. Point-of-sale merchandising and advertising efforts are proposed and implemented by Coca-Cola FEMSA, with a focus on increasing Coca-Cola FEMSA's connection with customers and consumers.

**Channel Marketing.** In order to provide more dynamic and specialized marketing of its products, Coca-Cola FEMSA's strategy is to classify its markets and develop targeted efforts for each consumer segment or distribution channel. Coca-Cola FEMSA's principal channels are small retailers, on-premise accounts, such as restaurants and bars, supermarkets and third party distributors. Presence in these channels entails a comprehensive and detailed analysis of the purchasing patterns and preferences of various groups of beverage consumers in each of the different types of locations or distribution channels. In response to this analysis, Coca-Cola FEMSA tailors its product, price, packaging and distribution strategies to meet the particular needs of and exploit the potential of each channel.

**Multi-Segmentation.** Coca-Cola FEMSA has implemented a multi-segmentation strategy in all of its markets. These strategies consist of the implementation of different product/price/package portfolios by market cluster or group. These clusters are defined based on consumption occasion, competitive environment and income level, rather than solely on the types of distribution channels.

Coca-Cola FEMSA believes that the implementation of these strategies described above also enables it to respond to competitive initiatives with channel-specific responses as opposed to market-wide responses. In addition, it allows Coca-Cola FEMSA to be more efficient in the way it goes to market and invests its marketing resources in those segments that could provide a higher return. Our marketing, segmentation and distribution activities are facilitated by Coca-Cola FEMSA's management information systems, and are all incorporated within Coca-Cola FEMSA's centers of excellence.

**Table of Contents****Product Sales and Distribution**

The following table provides an overview of Coca-Cola FEMSA's distribution centers and the retailers to which it sells its products:

|                          | As of December 31, 2016                   |                              |           |
|--------------------------|---|------------------------------|-----------|
|                          | Mexico and Central America <sup>(1)</sup> | South America <sup>(2)</sup> | Venezuela |
| Distribution centers     | 179                                       | 71                           | 26        |
| Retailers <sup>(3)</sup> | 980,237                                   | 845,139                      | 168,833   |

(1) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama.

(2) Includes Colombia, Brazil and Argentina.

(3) Estimated.

Coca-Cola FEMSA continuously evaluates its distribution model in order to fit with the local dynamics of the marketplace and analyze the way it goes to market, recognizing different service needs from its customers, while looking for a more efficient distribution model. As part of this strategy, Coca-Cola FEMSA is rolling out a variety of new distribution models throughout its territories looking for improvements in its distribution network.

Coca-Cola FEMSA uses several sales and distribution models depending on market, geographic conditions and the customer's profile: (i) the pre-sale system, which separates the sales and delivery functions, permitting trucks to be loaded with the mix of products that retailers have previously ordered, thereby increasing both sales and distribution efficiency; (ii) the conventional truck route system, in which the person in charge of the delivery makes immediate sales from inventory available on the truck; (iii) a hybrid distribution system, where the same truck carries product available for immediate sale and product previously ordered through the pre-sale system; (iv) the telemarketing system, which could be combined with pre-sales visits; and (v) sales through third-party wholesalers of its products.

As part of the pre-sale system, sales personnel also provide merchandising services during retailer visits, which Coca-Cola FEMSA believes enhances the shopper experience at the point of sale. Coca-Cola FEMSA believes that an adequate number of service visits to retailers and frequency of deliveries are essential elements in an effective selling and distribution system of its products.

Coca-Cola FEMSA's distribution centers range from large warehousing facilities and re-loading centers to small deposit centers. In addition to its fleet of trucks, Coca-Cola FEMSA distributes its products in certain locations through electric carts and hand-trucks in order to comply with local environmental and traffic regulations. In some of its territories, Coca-Cola FEMSA retains third parties to transport its finished products from the bottling plants to the distribution centers.

**Mexico.** Coca-Cola FEMSA contracts with one of our subsidiaries for the transportation of finished products to its distribution centers from its production facilities. From the distribution centers, Coca-Cola FEMSA then distributes its finished products to retailers through its fleet of trucks.

In Mexico, Coca-Cola FEMSA sells a majority of its beverages at small retail stores to consumers who may take the beverages for consumption at home or elsewhere. Coca-Cola FEMSA also sells products through the on-premise consumption segment, supermarkets and other locations. The on-premise consumption segment consists of sales through sidewalk stands, restaurants, bars and various types of dispensing machines as well as sales through point-of-sale programs in stadiums, concert halls, auditoriums and theaters.



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**Brazil.** In Brazil, Coca-Cola FEMSA distributes its finished products to retailers through a combination of its own fleet of trucks and third party distributors, while Coca-Cola FEMSA maintains control over the selling function. In designated zones in Brazil, third-party distributors purchase Coca-Cola FEMSA's products at a discount from the wholesale price and resell the products to retailers. Coca-Cola FEMSA also sells its products through modern distribution channels. Modern distribution channels in Brazil include large and organized chain retail outlets such as wholesale supermarkets, discount stores and convenience stores that sell fast-moving consumer goods, where retailers can buy large volumes of products from various producers.

**Territories other than Mexico and Brazil.** Coca-Cola FEMSA distributes its finished products to retailers through a combination of its own fleet of trucks and third party distributors. In most of its territories, an important part of its total sales volume is sold through small retailers, with low supermarket penetration.

### **Competition**

While Coca-Cola FEMSA believes that its products enjoy wider recognition and greater consumer loyalty than those of its principal competitors, the markets in the territories where Coca-Cola FEMSA operates are highly competitive. Coca-Cola FEMSA's principal competitors are local *Pepsi* bottlers and other bottlers and distributors of local beverage brands. Coca-Cola FEMSA faces increased competition in many of its territories from producers of low price beverages, commonly referred to as B brands. A number of Coca-Cola FEMSA's competitors in Central America, Venezuela, Brazil and Argentina offer beer in addition to sparkling beverages, still beverages, and water, which may enable them to achieve distribution efficiencies.

While competitive conditions are different in each of Coca-Cola FEMSA's territories, Coca-Cola FEMSA competes mainly in terms of price, packaging, effective promotional activities, access to retail outlets and sufficient shelf space, customer service, product innovation and product alternatives and the ability to identify and satisfy consumer preferences. Coca-Cola FEMSA competes by seeking to offer products at an attractive price in the different segments in its markets and by building on the value of its brands. Coca-Cola FEMSA believes that the introduction of new products and new presentations has been a significant competitive technique that allows it to increase demand for its products, provide different options to consumers and increase new consumption opportunities. See **Item 4 Coca-Cola FEMSA Our Products and Item 4 Coca-Cola FEMSA Packaging.**

**Mexico and Central America.** Coca-Cola FEMSA's principal competitors in Mexico are bottlers of *Pepsi* products, whose territories overlap but are not co-extensive with Coca-Cola FEMSA's own. Coca-Cola FEMSA competes with Organización Cultiva, S.A.B. de C.V., a joint venture formed by Grupo Embotelladoras Unidas, S.A.B. de C.V., the former *Pepsi* bottler in central and southeast Mexico, a subsidiary of PepsiCo, and Empresas Polar, S.A., the leading beer distributor and *Pepsi* bottler in Venezuela. Coca-Cola FEMSA's main competition in the juice category in Mexico is Grupo Jumex. In the water category, *Bonafont*, a water brand owned by Grupo Danone, is Coca-Cola FEMSA's main competition. In addition, Coca-Cola FEMSA competes with *Cadbury Schweppes* in sparkling beverages and with other local brands in our Mexican territories, as well as B brand producers, such as Ajemex, S.A. de C.V. (*Big Cola* bottler) and Consorcio AGA, S.A. de C.V. (*Red Cola* bottler), that offer various presentations of sparkling and still beverages.

In the countries that comprise Coca-Cola FEMSA's Central America region, Coca-Cola FEMSA's main competitors are *Pepsi* and *Big Cola* bottlers. In Guatemala and Nicaragua, Coca-Cola FEMSA competes with a joint venture between AmBev and The Central American Bottler Corporation. In Costa Rica, Coca-Cola FEMSA's principal competitor is Florida Bebidas S.A., subsidiary of Florida Ice and Farm Co. In Panama, Coca-Cola FEMSA's main competitor is Cervecería Nacional, S.A. Coca-Cola FEMSA also faces competition from B brands offering multiple serving size presentations in some Central American countries.

**South America (excluding Venezuela).** Coca-Cola FEMSA's principal competitor in Colombia is Postobón, a well-established local bottler (*Postobón* and *Colombiana* bottler). Postobón sells *manzana Postobón* (apple Postobón), which is the second most popular flavor in the Colombian sparkling beverage industry in terms of total sales volume. Postobón also sells *Pepsi* products. Postobón is a vertically integrated producer, the owners of which hold other significant commercial interests in Colombia. Coca-Cola FEMSA also competes with low-price producers, such as the producers of *Big Cola*, which principally offer multiple serving size presentations in the sparkling and still beverage industry.

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In Brazil, Coca-Cola FEMSA competes against AmBev, a Brazilian company with a portfolio of brands that includes *Pepsi*, local brands with flavors such as guarana, and proprietary beer brands. Coca-Cola FEMSA also competes against B brands or Tubainas, which are small, local producers of low-cost flavored sparkling beverages that represent a significant portion of the sparkling beverage market.

In Argentina, Coca-Cola FEMSA's main competitor is Buenos Aires Embotellador S.A. (BAESA), a *Pepsi* bottler, which is owned by Argentina's principal brewery, Quilmes Industrial S.A., and indirectly controlled by AmBev. In addition, Coca-Cola FEMSA competes with a number of competitors offering generic, low-priced sparkling beverages as well as many other generic products and private label proprietary supermarket brands.

**Venezuela.** In Venezuela, Coca-Cola FEMSA's main competitor is Pepsi-Cola Venezuela, C.A., a joint venture formed between PepsiCo and Empresas Polar, S.A., the leading beer distributor in the country. Coca-Cola FEMSA also competes with the producers of *Big Cola* in part of this country.

## **Raw Materials**

Pursuant to its bottler agreements, Coca-Cola FEMSA is authorized to manufacture, sell and distribute *Coca-Cola* trademark beverages within specific geographic areas, and Coca-Cola FEMSA is required to purchase concentrate for all *Coca-Cola* trademark beverages in all of its territories from companies designated by The Coca-Cola Company and sweeteners and other raw materials from companies authorized by The Coca-Cola Company. Concentrate prices for *Coca-Cola* trademark beverages are determined as a percentage of the weighted average retail price in local currency net of applicable taxes. Although The Coca-Cola Company has the right to unilaterally set the price of concentrates, in practice this percentage has historically been set pursuant to periodic negotiations with The Coca-Cola Company.

In the past, The Coca-Cola Company has increased concentrate prices for *Coca-Cola* trademark beverages in some of the countries where Coca-Cola FEMSA operates. In 2014, The Coca-Cola Company informed Coca-Cola FEMSA that it would gradually increase concentrate prices for certain *Coca-Cola* trademark beverages over a five-year period in Costa Rica and Panama beginning in 2014. In 2015, The Coca-Cola Company informed Coca-Cola FEMSA that it would gradually increase concentrate prices for flavored water over a four-year period in Mexico beginning in April 2015 and that it would gradually increase concentrate prices for certain *Coca-Cola* trademark beverages over a two-year period in Colombia beginning in 2016. In 2016, The Coca-Cola Company informed Coca-Cola FEMSA that it would gradually increase concentrate prices for *Coca-Cola* trademark beverages over a three-year period in Mexico beginning in July 2017. Based on Coca-Cola FEMSA's estimates, Coca-Cola FEMSA currently does not expect these increases will have a material adverse effect on its results of operations. The Coca-Cola Company may unilaterally increase concentrate prices again in the future and Coca-Cola FEMSA may not be successful in negotiating or implementing measures to mitigate the negative effect this may have in the prices of its products or its results.

In addition to concentrate, Coca-Cola FEMSA purchases sweeteners, carbon dioxide, resin and preforms to make plastic bottles, finished plastic and glass bottles, cans, caps and fountain containers, as well as other packaging materials and raw materials. Sweeteners are combined with water to produce basic syrup, which is added to the concentrate as the sweetener for most of Coca-Cola FEMSA's beverages. Coca-Cola FEMSA's bottler agreements provide that, with respect to *Coca-Cola* trademark beverages, these materials may be purchased only from suppliers approved by The Coca-Cola Company. Prices for certain raw materials, including those used in the bottling of Coca-Cola FEMSA's products, mainly resin, finished plastic bottles, aluminum cans, HFCS and certain sweeteners, are paid in or determined with reference to the U.S. dollar, and therefore local prices in a particular country may increase based on changes in the applicable exchange rates. Coca-Cola FEMSA's most significant packaging raw material costs arise from the purchase of resin, the price of which is related to crude oil prices and global resin supply. The average price that we paid for resin in U.S. dollars in 2016 decreased 14.1% as compared to 2015 in all Coca-Cola FEMSA's territories, excluding Venezuela; however, given that high currency volatility has affected and continues to affect most of Coca-Cola FEMSA's territories, the average price for resin in local currencies was higher in 2016 in Argentina and Mexico. In 2016, we purchased certain raw materials in advance and entered into certain derivative transactions, which helped Coca-Cola FEMSA capture opportunities with respect to raw material costs and currency exchange rates.

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Under Coca-Cola FEMSA's agreements with The Coca-Cola Company, Coca-Cola FEMSA may use raw or refined sugar or HFCS as sweeteners in its products. Sugar prices in all of the countries where Coca-Cola FEMSA operates, other than Brazil, are subject to local regulations and other barriers to market entry that cause Coca-Cola FEMSA to pay for sugar in excess of international market prices for sugar in certain countries. In recent years, international sugar prices experienced significant volatility. Across Coca-Cola FEMSA's territories, Coca-Cola FEMSA's average price for sugar in U.S. dollars, taking into account its financial hedging activities decreased approximately 1.1% (excluding Venezuela) or 12.0% (including Venezuela) in 2016 as compared to 2015; however, the average price for sugar in local currency was higher in all of Coca-Cola FEMSA's operations, except for Guatemala.

Coca-Cola FEMSA categorizes water as a raw material in its business. Coca-Cola FEMSA obtains water for the production of some of its natural spring water products, such as *Manantial* in Colombia and *Crystal* in Brazil, from spring water pursuant to concessions granted.

None of the materials or supplies that Coca-Cola FEMSA uses is presently in short supply, although the supply of specific materials could be adversely affected by strikes, weather conditions, governmental controls, national emergency situations, water shortages or the failure to maintain our existing water concessions.

**Mexico and Central America.** In Mexico, Coca-Cola FEMSA purchases its returnable plastic bottles from Graham Packaging México, S.A. de C.V., known as Graham, and Envases Universales de México, S.A.P.I. de C.V. Coca-Cola FEMSA mainly purchases resin from Indorama Ventures Polymers México, S. de R.L. de C.V. (formerly Arteva Specialties, S. de R.L. de C.V.), M&G Polímeros México, S.A. de C.V. and DAK Resinas Americas Mexico, S.A. de C.V., which Alpla México, S.A. de C.V., known as Alpla, and Envases Universales de México, S.A.P.I. de C.V. manufacture into non-returnable plastic bottles for Coca-Cola FEMSA. Also, Coca-Cola FEMSA has introduced into its business Asian global suppliers, such as Far Eastern New Century Corp. or FENC, which supports its PET strategy mainly for Central America and is known as one of the top five PET global suppliers.

Coca-Cola FEMSA purchases all of its cans from Fábricas de Monterrey, S.A. de C.V., or FAMOSA, and Envases Universales de México, S.A.P.I. de C.V., through Promotora Mexicana de Embotelladoras, S.A. de C.V., known as PROMESA, a cooperative of *Coca-Cola* bottlers, in which, as of April 7, 2017, Coca-Cola FEMSA held a 35.0% equity interest. Coca-Cola FEMSA mainly purchases its glass bottles from Vitro America, S. de R.L. de C.V. (formerly Compañía Vidriera, S.A. de C.V., or Vitro), FEVISA Industrial, S.A. de C.V., known as FEVISA, and Glass & Silice, S.A. de C.V., or SIVESA.

Coca-Cola FEMSA purchases sugar from, among other suppliers, PIASA and Beta San Miguel, S.A. de C.V., both sugar cane producers in which, as of April 7, 2017, it held a 36.4% and 2.7% equity interest, respectively. Coca-Cola FEMSA purchases HFCS from Ingredion México, S.A. de C.V., Almidones Mexicanos, S.A. de C.V., known as Almex and Cargill de México, S.A. de C.V.

Sugar prices in Mexico are subject to local regulations and other barriers to market entry that cause Coca-Cola FEMSA to pay higher prices than those paid in the international market. As a result, prices in Mexico have no correlation to international market prices. In 2016, sugar prices in local currency in Mexico increased approximately 25.0% as compared to 2015.

In Central America, the majority of Coca-Cola FEMSA's raw materials such as glass and plastic bottles are purchased from several local suppliers. Coca-Cola FEMSA purchases all of its cans from PROMESA. Sugar is available from suppliers that represent several local producers. In Costa Rica, Coca-Cola FEMSA acquires plastic non-returnable bottles from Alpla C.R. S.A., and in Nicaragua Coca-Cola FEMSA acquires such plastic bottles from Alpla Nicaragua, S.A.

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**South America (excluding Venezuela).** In Colombia, Coca-Cola FEMSA uses sugar as a sweetener in most of its products, which Coca-Cola FEMSA buys from several domestic sources. Sugar prices in Colombia increased approximately 15.0% in U.S. dollars and 27.0% in local currency, as compared to 2015. Coca-Cola FEMSA purchases plastic bottles from Amcor Rigid Plastics de Colombia, S.A. and Tapón Corona de Colombia S.A. (affiliate of Envases Universales de México, S.A.P.I. de C.V.). Coca-Cola FEMSA has historically purchased all of its glass bottles from Peldar O-I; however, Coca-Cola FEMSA has engaged new suppliers and has acquired glass bottles from Al Tajir and Frigoglass in both cases from the United Arab Emirates. Coca-Cola FEMSA purchases all of its cans from Crown Colombiana, S.A. and Envases Universales de México, S.A.P.I. de C.V. Grupo Ardila Lulle, owners of Coca-Cola FEMSA's competitor Postobón, own a minority equity interest in Peldar O-I and Crown Colombiana, S.A.

Sugar is available in Brazil at local market prices, which historically have been similar to international prices. Sugar prices in Brazil increased approximately 36.0% in U.S. dollars and increased 42.0% in local currency as compared to 2015. Taking into account Coca-Cola FEMSA's financial hedging activities, Coca-Cola FEMSA's sugar prices in Brazil decreased approximately 21.0% in U.S. dollars and decreased 16.0% in local currency as compared to 2015. Coca-Cola FEMSA purchases glass bottles, plastic bottles and cans from several domestic and international suppliers.

In Argentina, Coca-Cola FEMSA mainly use HFCS that it purchases from several different local suppliers as a sweetener in its products. Coca-Cola FEMSA purchases glass bottles, plastic cases and other raw materials from several domestic sources. Coca-Cola FEMSA purchases plastic preforms, as well as returnable plastic bottles, at competitive prices from Andina Empaques S.A., a local subsidiary of Embotelladora Andina, S.A., a *Coca-Cola* bottler with operations in Chile, Argentina, Brazil and Paraguay, and other local suppliers. Coca-Cola FEMSA also acquires plastic preforms from Alpla Avellaneda, S.A. and other suppliers, such as AMCOR Argentina.

**Venezuela.** In Venezuela, Coca-Cola FEMSA uses sugar as a sweetener in all of its caloric beverages, which Coca-Cola FEMSA purchases mainly from the local market. Since 2003, from time to time, Coca-Cola FEMSA has experienced a sugar shortage due to lower domestic production and the inability of the predominant sugar importers to obtain permission to import in a timely manner. Because sugar distribution to the food and beverages industry and to retailers is controlled by the government, Coca-Cola FEMSA experienced material disruptions during 2016 with respect to access to sufficient sugar supply. For this reason, in 2016 Coca-Cola FEMSA decided to adjust its product portfolio from caloric beverages to non-caloric beverages. We cannot assure you that Coca-Cola FEMSA will not continue to experience disruptions in its ability to meet its sugar requirements in the future should the Venezuelan government continue to impose restrictive measures. Coca-Cola FEMSA buys glass bottles from one local supplier, Productos de Vidrio, C.A., the only supplier authorized by The Coca-Cola Company. Coca-Cola FEMSA acquires most of its plastic non-returnable bottles from Alpla de Venezuela, S.A. and most of its aluminum cans from a local producer, Dominguez Continental, C.A.

Under current regulations promulgated by the Venezuelan authorities, Coca-Cola FEMSA's ability and that of its suppliers to import some of the raw materials and other supplies used in its production could be limited, and access to the official exchange rate for these items, including, among others, concentrate, resin, aluminum, plastic caps, distribution trucks and vehicles is only achieved by obtaining proper approvals from the relevant authorities.

**FEMSA Comercio**

**Overview**

FEMSA Comercio operates through the following divisions:

*Retail Division:* operates the largest chain of small-format stores in Mexico, measured in terms of number of stores as of December 31, 2016, mainly under the trade name OXXO. As of December 31, 2016, the Retail Division operated 15,225 OXXO stores, of which 15,160 are located throughout Mexico and the remaining 65 OXXO stores are located in Colombia.

*Health Division:* operates drugstores and related operations with 2,120 points of sale in Mexico, Chile and Colombia as of December 31, 2016.

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*Fuel Division:* operates retail service stations for fuels, motor oils and other car care products. As of December 31, 2016, the Fuel Division operated 382 service stations, concentrated mainly in the northern part of Mexico with a presence in 16 different states throughout the country.

**Operations by Division Overview****Year Ended December 31, 2016**

|                 | (in millions of Mexican pesos, except percentages) |                                 |              |                                 |
|-----------------|--|---------------------------------|--------------|---------------------------------|
|                 | Total Revenues                                     |                                 | Gross Profit |                                 |
|                 | 2016   | 2016 vs. 2015 <sup>(1)(2)</sup> | 2016         | 2016 vs. 2015 <sup>(1)(2)</sup> |
| Retail Division | Ps. 137,139  | 14.4%                           | Ps. 50,990   | 16.8%                           |
| Health Division | 43,411   | 232.6%                          | 12,738       | 245.4%                          |
| Fuel Division   | 28,616   | 54.6%                           | 2,248        | 58.3%                           |

(1) The operations that compose the Health Division have been treated as a separate reportable segment since 2016.

(2) Includes the Group Socofar's operations recorded since October 2015.

**Corporate History****Retail Division**

FEMSA's retail business started in 1978 with the opening of two OXXO stores in Monterrey, Nuevo Leon, one store in Mexico City and another store in Guadalajara, Jalisco. The motivating factor behind FEMSA's entrance into the retail industry was to enhance beer sales through company-owned retail outlets as well as to gather information on customer preferences.

In 1994, FEMSA Comercio consolidated its retail business into an independent business unit, and by 1998, it reached 1,000 OXXO stores in Mexico. By 2007, the store count surpassed 5,000 across Mexico, and in 2009, OXXO entered Colombia, where it has continued expanding its presence. Currently, there are 65 OXXO stores in Colombia.

In December 2013, FEMSA Comercio, through one of its subsidiaries, purchased the operating assets and trademarks of Doña Tota, a leading quick-service restaurant operator in Mexico. The founding shareholders of Doña Tota hold a 20% stake in the FEMSA Comercio subsidiary that now operates the Doña Tota business.

In January 2016, in order to explore the fast casual dining industry in the United States, FEMSA Comercio, through its subsidiary Cadena Comercial USA, completed the acquisition of an 80% economic stake in Specialty's, which then operated 56 café restaurants in the states of California, Washington and Illinois. In January 2017, Cadena Comercial USA completed the acquisition of the remaining 20% economic stake in Specialty's becoming its sole owner.

In June 2016, the Retail Division, through its subsidiary Cadena Comercial Andina, SpA, acquired Big John, a leading convenience store operator based in Santiago, Chile. At the time of the acquisition, Big John operated 49 stores, mainly in the Santiago metropolitan area. In March 2017, the Retail Division opened its first OXXO store in Chile.

**Health Division**

Leveraging FEMSA Comercio's capabilities and skills in successfully operating small-box retail formats, in May 2013, FEMSA Comercio, through its subsidiary CCF, closed the acquisition of Farmacias YZA, a leading drugstore operator in Southeast Mexico, headquartered in Merida, Yucatan, to create another avenue for growth for FEMSA Comercio. The founding shareholders of Farmacias YZA hold a 25% stake in CCF.



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In a separate transaction, on May 13, 2013, CCF acquired Farmacias FM Moderna, a leading drugstore operator in the western state of Sinaloa.

In June 2015, CCF acquired 100% of Farmacias Farmacon, a regional pharmacy chain consisting at the time of the transaction of more than 200 stores in the northwestern Mexican states of Sinaloa, Sonora, Baja California and Baja California Sur.

In September 2015, the Retail Division acquired 60% of Socofar, a leading South American drugstore operator based in Santiago, Chile. Socofar operated, directly and through franchises, at that time, more than 600 drugstores and 150 beauty stores throughout Chile and 150 drugstores throughout Colombia.

In June 2016, CCF acquired 100% of Farmacias Generix, a regional pharmacy chain consisting at the time the transaction of 70 drugstores in the Mexican states of Jalisco, Guanajuato, Mexico City, Queretaro and Nuevo Leon.

In July 2016, Sofocar through one of its subsidiaries, Drogueria y Farmacias Cruz Verde S.A.S., acquired 100% of Farmacias Acuña, a regional pharmacy chain consisting at the time of 51 drugstores in Colombia.

### ***Fuel Division***

Since 1995, FEMSA Comercio has provided operational and administrative services for gasoline service stations through agreements with third parties, using the commercial brand OXXO GAS. Over time, this brand has become synonymous of quality service among our customers, and revenues per service station have consistently grown. Historically, Mexican legislation precluded FEMSA Comercio from participating in the retail of gasoline, and therefore from owning PEMEX franchises, due to FEMSA's foreign institutional investor base. In March 2015, following changes to the legal framework and considering the potential expansion and synergies arising from this business as part of Mexico's energy reform, FEMSA Comercio began to acquire and lease PEMEX's service station franchises and to obtain permits to operate each of the franchises.

### **Retail Division**

#### ***Business Strategy***

The Retail Division intends to continue increasing its store base while capitalizing on the retail business and market knowledge gained at existing stores. We intend to open new stores in locations where we believe there is high growth potential or unsatisfied demand, while also increasing customer traffic and average ticket per customer in existing stores. Our expansion focuses on both entering new markets and strengthening our presence nationwide and across different income levels of population. A fundamental element of the Retail Division's business strategy is to leverage its retail store formats, know-how, technology and operational practices to continue growing in a cost-effective and profitable manner. This scalable business platform is expected to provide a strong foundation for continued organic growth, improving traffic and average ticket sales at our existing stores and facilitating entry into new small-format retail industries.

The Retail Division has developed proprietary models to assist in identifying appropriate store locations, store formats and product categories. These models utilize location-specific demographic data and the Retail Division's experience in similar locations to fine-tune the store formats, product price ranges and product offerings to the target market. Market segmentation is becoming an important strategic tool that is expected to allow the Retail Division to improve the operating efficiency of each location, cover a wider array of consumption occasions and increase its overall profitability.

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The Retail Division continues to improve its information gathering and processing systems to allow it to connect with its customers at all levels and anticipate and respond efficiently to their changing demands and preferences. Most of the products carried through OXXO stores are bar-coded, and all OXXO stores are equipped with point-of-sale systems integrated into a company-wide computer network. To implement more effective business strategies, the Retail Division created a department in charge of product category management, for products such as beverages, fast food and perishables, responsible for analyzing data gathered to better understand our customers, develop integrated marketing plans and allocate resources more efficiently. This department utilizes a technology platform supported by an enterprise resource planning (ERP) system, as well as other technological solutions such as merchandising and point-of-sale systems, which allow the Retail Division to redesign and adjust its key operating processes and certain related business decisions. Our IT system also allows us to manage each store's working capital, inventories and investments in a cost-effective way while maintaining high sales volume and store quality. Supported by continued investments in IT, our supply chain network allows us to optimize working capital requirements through inventory rotation and reduction, reducing out-of-stock days and other inventory costs.

The Retail Division has adopted innovative promotional strategies in order to increase store traffic and sales. In particular, the OXXO stores sell high-frequency items such as beverages, snacks and cigarettes at competitive prices. The Retail Division's ability to implement this strategy profitably is partly attributable to the size of the OXXO stores chain, as such division is able to work together with its suppliers to implement their revenue-management strategies through differentiated promotions. OXXO stores' national and local marketing and promotional strategies are an effective revenue driver and a means of reaching new segments of the population while strengthening the OXXO brand. For example, the organization has refined its expertise in executing cross promotions (discounts on multi-packs or sales of complementary products at a special price) and targeted promotions to attract new customer segments by expanding the offerings in the grocery product category in certain stores.

Another fundamental element of our strategy consists of leveraging our reputation for quality and the position of our brand in the minds of our customers to expand our offering of private-label products. Our private-label products represent an alternative for value-conscious consumers, which, combined with our market position, allows the Retail Division to increase sales and margins, strengthen customer loyalty and bolster its bargaining position with suppliers.

Historically, the Retail Division has represented an effective distribution channel for our beverage products, as well as a rapidly growing point of contact with our consumers. Based on the belief that location plays a major role in the long-term success of a retail operation such as a small-format store, as well as a role in our ability to accelerate and streamline the new-store development process, the Retail Division has focused on a strategy of rapid, profitable growth.

Finally, to further increase customer traffic into our stores, the Retail Division has incorporated additional services, such as utility bill payment, deposits into bank accounts held at our correspondent bank partners, remittances, prepayment of mobile phone fees and charges and other financial services, and it constantly increases the services offered in its stores.

### ***Store Locations***

With 15,160 OXXO stores in Mexico and 65 OXXO stores in Colombia as of December 31, 2016, the Retail Division operates the largest small-format store chain in the Americas measured by number of stores. The Retail Division has expanded its operations by opening 1,145 net new OXXO stores in Mexico and 19 in Colombia during 2016.



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**OXXO Stores**

**Regional Allocation in Mexico and Latin America<sup>(\*)</sup>**

**as of December 31, 2016**

The Retail Division has aggressively expanded its number of OXXO stores over the past several years. The average investment required to open a new OXXO store varies, depending on location and format and whether the store is opened in an existing retail location or requires construction of a new store. The Retail Division is generally able to use supplier credit to fund the initial inventory of new OXXO stores.

**Table of Contents****OXXO Stores****Total Growth**

|  | Year Ended December 31, |        |        |        |        |
|--|-------------------------|--------|--------|--------|--------|
|  | 2016                    | 2015   | 2014   | 2013   | 2012   |
| Total OXXO stores                          | 15,225                  | 14,061 | 12,853 | 11,721 | 10,601 |
| Store growth (% change over previous year) | 8.3%                    | 9.4%   | 9.7%   | 10.6%  | 10.9%  |

The Retail Division currently expects to continue implementing its expansion strategy by emphasizing growth in areas of high economic potential in existing markets and by expanding in underserved and unexploited markets.

Most of the OXXO stores are operated under lease agreements, which are denominated in Mexican peso and adjusted annually to an inflation index. This approach provides the Retail Division the flexibility to adjust locations as cities grow and effectively adjust its footprint based on stores' performance.

The identification of locations and pre-opening planning in order to optimize the results of new OXXO stores are important elements in the Retail Division's growth plan. The Retail Division continuously reviews store performance against certain operating and financial benchmarks to optimize the overall performance of the chain. Stores of the Retail Division that are unable to maintain benchmark standards are generally closed. Between December 31, 2012 and 2016, the total number of OXXO stores increased by 4,624, which resulted from the opening of 4,844 new stores and the closing of 220 stores.

**Competition**

The Retail Division, mainly through OXXO stores, competes in the overall retail market, which we believe is highly competitive. OXXO stores face competition from small-format stores like 7-Eleven, Circle K stores and other numerous chains of retailers across Mexico, from other regional small-format retailers to small informal neighborhood stores. OXXO competes both for consumers and for new locations for stores and human resources to operate those stores. The Retail Division operates in each state in Mexico and has a much broader geographic coverage than any of its competitors in Mexico.

**Market and Store Characteristics***Market Characteristics*

The Retail Division is placing increased emphasis on market segmentation and differentiation of store formats to more appropriately serve the needs of customers on a location-by-location basis. The principal segments include residential neighborhoods, commercial and office locations and stores near schools and universities, along with other types of specialized locations.

Approximately 59% of OXXO stores' customers are between the ages of 15 and 35. The Retail Division also segments the market according to demographic criteria, including income level.

*OXXO Store Characteristics*

The average size of an OXXO store is approximately 104 square meters of selling space, excluding space dedicated to refrigeration, storage or parking. The average constructed area of a store is approximately 188 square meters and, when parking areas are included, the average store size is approximately 415 square meters. In 2016, a typical OXXO store carried an average of 3,105 different stock keeping units (SKUs) in 31 main product categories.

**Table of Contents****Retail Division Operating Indicators**

|   | 2016   | Year Ended December 31, |       |       |       |
|---|--|-------------------------|-------|-------|-------|
|   |  | 2015                    | 2014  | 2013  | 2012  |
|   | (percentage increase compared to<br>previous year) |                         |       |       |       |
| Total Retail Division revenues <sup>(1)</sup> | 14.4%  | 21.2% <sup>(3)</sup>    | 12.4% | 12.9% | 16.6% |
| OXXO same-store sales <sup>(2)</sup>          | 7.0%   | 6.9%                    | 2.7%  | 2.4%  | 7.7%  |

- (1) Includes revenues of Big John. See **Item 4. Information on the Company Corporate Background** and Note 4 to our audited consolidated financial statements.
- (2) Same-store sales growth is calculated by comparing the sales of stores for each year that have been in operation for more than 12 months with the sales of those same stores during the previous year.
- (3) Includes revenues of Farmacias Farmacon from June 2015 and Socofar from October 2015. See **Item 4. Information on the Company Corporate Background** and Note 4 to our audited consolidated financial statements. We have restated 2015 information by segment in our consolidated financial statements for comparative purposes. Otherwise, the percentage is compared as reported last year.

Beer, cigarettes, soft drinks and other beverages and snacks represent the main product categories for OXXO stores. The Retail Division has a distribution agreement with Cuauhtémoc Moctezuma, pursuant to which OXXO stores only carry beer brands produced and distributed by Cuauhtémoc Moctezuma. OXXO stores will continue to benefit from the existing relationship under which Cuauhtémoc Moctezuma will continue to be the exclusive supplier of beer to OXXO until June 2020.

Approximately 56% of OXXO stores are operated by independent managers responsible for all aspects of store operations. The store managers are commission agents and are not employees of the Retail Division. Each store manager is the legal employer of the store's staff, which typically numbers six people per store. The Retail Division continually invests in on-site operating personnel, with the objective of promoting loyalty, customer service and low personnel turnover in the stores.

**Advertising and Promotion**

The Retail Division's marketing efforts for OXXO stores include both specific product promotions and image advertising campaigns. These strategies seek to increase store traffic and sales, and to reinforce the OXXO name and market position.

The Retail Division manages its advertising for OXXO stores on three levels depending on the nature and scope of the specific campaign: local or store-specific, regional and national. Store-specific and regional campaigns are closely monitored to ensure consistency with the overall corporate image of OXXO stores and to avoid conflicts with national campaigns. The Retail Division primarily uses point of purchase materials, flyers, handbills and print and radio media for promotional campaigns, although television is used occasionally for the introduction of new products and services. The OXXO store chain's image and brand name are presented consistently across all stores, irrespective of location.

**Inventory and Purchasing**

The Retail Division has placed considerable emphasis on improving operating performance. As part of these efforts, the Retail Division continues to invest in extensive information management systems to improve inventory management. Electronic data collection has enabled this division to reduce average inventory levels. Inventory replenishment decisions are carried out on a store-by-store basis.

Management believes that the OXXO store chain's scale of operations provides the Retail Division with a competitive advantage in its ability to realize strategic alliances with suppliers. General category offerings are determined on a national level, although purchasing decisions are implemented on a local, regional or national level, depending on the nature of the product category. Given the fragmented nature of the retail industry in Mexico in general, Mexican producers of beer, soft drinks, bread, dairy products, snacks, and other high-frequency products have established proprietary distribution systems with extensive direct distribution routes. As a result, approximately 59% of the OXXO store chain's total sales consist of products that are delivered directly to the stores by suppliers. Other products with longer shelf lives are distributed to stores by the Retail Division's distribution system, which includes 17 regional warehouses located in Monterrey, Guadalajara, Mexicali, Merida, Leon, Obregon, Puebla, Queretaro, Chihuahua, Reynosa, Saltillo, Tijuana, Toluca, Veracruz, Villahermosa and two in Mexico City. Our logistics services subsidiary operates a fleet of approximately 978 trucks that make deliveries from the distribution centers to each store approximately twice per week.



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### ***Seasonality***

OXXO stores experience periods of high demand in December, as a result of the holidays, and in July and August, as a result of increased consumption of beer and soft drinks during the hot summer months. The months of November and February are generally the weakest sales months for OXXO stores. In general, colder weather during these months reduces store traffic and consumption of cold beverages.

### ***Quick-Service Restaurant Market***

Following the rationale that the Retail Division has developed certain capabilities and skills that should be well suited to different types of small-format retail, in 2013 the Retail Division entered the quick-service restaurant market in Mexico through the 80% acquisition of Doña Tota, with the founding shareholders retaining 20%. This is a leading regional chain specializing in Mexican food with a particularly strong presence in the northeast of the country. This acquisition presented the Retail Division with the opportunity to grow Doña Tota's stand-alone store base across the country, as well as the possibility to acquire prepared food capabilities and expertise.

In January 2016, in order to explore the fast casual dining industry in the United States, FEMSA Comercio, through its subsidiary Cadena Comercial USA, completed the acquisition of an 80% economic stake in Specialty's, which operated 56 café restaurants in California, Washington and Illinois, as of that date. In January 2017, Cadena Comercial USA completed the acquisition of the remaining 20% economic stake in Specialty's becoming its sole owner.

### ***Other Stores***

The Retail Division also operates other small-format stores, which include soft discount stores with a focus on perishables and liquor stores.

## **Health Division**

### ***Business Strategy***

The Health Division's vision is focused on two main strategies: first, to gain relevant scale by building a Latin American pharmacy retail platform that operates across several countries and markets, and second, to constantly improve our value proposition and service by being closer to our customers and by giving them access to a broader assortment, better options and availability of required medications, as well as relevant health and wellness products and services. In order to achieve this, the Health Division is working on leveraging two strong capability sets: i) the Health-industry marketing and operational skills acquired through the incorporation of Chile-based Socofar, and ii) the skills that FEMSA Comercio has developed in the operation and growth of other small retail formats, particularly in Mexico. These capabilities include commercial, marketing and production skills as well as site selection, logistics, business processes, human resources, inventory and supplier management.

The drugstore market in Mexico is still fragmented, and FEMSA Comercio believes it is well equipped to create value by growing further in this market and by playing a value-creating role in its long-term consolidation. Furthermore, the acquisition of Socofar gives FEMSA Comercio the opportunity to pursue a regional strategy across South America from a solid platform anchored in the Chilean market and with compelling growth opportunities in Colombia and beyond.

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### ***Store Locations***

As of December 31, 2016, the Health Division operates 2,120 points of sale, including 1,077 in Mexico, 873 in Chile and 170 in Colombia.

During 2016, the Health Division expanded its operations by 220 additional stores. The average investment required to open a new store varies, depending on location and whether the store is opened in an existing store location or requires construction of a new store. The Health Division currently expects to continue implementing its expansion strategy by emphasizing growth in markets where it currently operates and by expanding in underserved and unexploited markets. Most of the drugstore-related real estate is operated under lease agreements.

### ***Competition***

The Health Division competes in the overall pharmacy services market, which we believe is highly competitive. Our stores face competition from other drugstore chains, independent pharmacies and supermarkets, online retailers, and convenience stores. The biggest chains competing with the Health Division in Mexico in terms of number of drugstores are Farmacias Guadalajara, Farmacias del Ahorro and Farmacias Benavides, while in Chile, the biggest chains are Farmacias Ahumada and Salcobrand. In Colombia, Copidrogas, La Rebaja, Colsubsidio, Olimpica, and Cafam are relevant players.

### ***Market and Store Characteristics***

#### ***Market Characteristics***

The drugstore market in Mexico is highly fragmented among national and regional chains as well as independent drugstores, supermarkets and other informal neighborhood drugstores. There are more than 29,000 drugstores; however, the Health Division only has 3.6% of the total number of pharmacies in Mexico with a presence in 15 of 32 states in the country.

The market in Colombia is similar but slightly less fragmented and in general includes national and regional chains. The national healthcare system in Colombia covers a large amount of the country's population and works through *Entidades Promotoras de Salud* (Health Promoting Entities) in the private and public sectors to provide healthcare services to the Colombian population.

In Chile, the market is more concentrated among a limited number of participants and our operation is the leading drugstore operator in the country in terms of number of stores. Our operation also is the largest distributor of pharmaceuticals in the country. The Chilean market, where our operation's healthcare services are shared by both institutional and personal consumers, represents an attractive growth opportunity.

The Health Division is placing increased emphasis on market segmentation and differentiation of store formats to more appropriately serve the needs of customers on a location-by-location basis, selecting sites with the greatest proximity to the customers.

The Health Division's customers are aged 18 and above, however 65% are between the ages of 26 and 55. Additionally, 58% of the Health Division's customers are female. The Health Division also segments the market according to demographic criteria, including income level and purchase frequency.

#### ***Store Characteristics***

The Health Division's stores are operated under the following trade names: Farmacias YZA, Farmacias Moderna, Farmacias Farmacon and Farmacias Generix in Mexico; Farmacias Cruz Verde in Chile and Colombia and beauty stores under the trade name Maicao in Chile. The average size of the Health Division's stores is 80 square meters in Mexico, 150 square meters in Chile and 89 square meters in Colombia, including selling space and storage area. On average, each store has between 6 and 11 employees depending on the size of and traffic into the store. Patented and generic pharmaceutical drugs, beauty products, medical supplies, household goods and personal care products are the main products sold at the Health Division's stores.

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The Health Division's stores also offer different value-added services, such as correspondent banking, product delivery services, medical examinations and some financial services in Chile.

### *Advertising and Promotion*

The Health Division's marketing efforts for its stores include both specific product promotions and image advertising campaigns. These strategies seek to increase store traffic and sales, and to reinforce the brands and market positions. In Chile, sanitary law forbids advertising of pharmaceutical products through mass media. Nevertheless, it is possible to advertise OTC products using point of purchase materials, flyers and print catalogs. Television, radio, newspapers and digital media are used in seasonal and promotional campaigns.

### *Inventory and Purchasing*

The South American operations of our Health Division seek to align the purchasing and logistics process with consumer needs. A key competitive advantage is our strong logistics chain, which relies on an integrated view of the supply chain. In Chile, we operate 4 distribution centers, the largest of which is a modern distribution center with advanced technology that services 1,500 stores and healthcare institution customers throughout the country. Of the remaining distribution centers one provides exclusive service to our beauty stores, one serves institutional customers and one focuses on high volume products. In Colombia, we operate one distribution center that distributes products to all our locations throughout the country.

In Mexico, we continue to integrate the companies we have acquired into a single model of operation and have built 2 distribution centers. One distribution center serves a significant part of the needs of stores located in the north of Mexico, while the second distribution center provides service to stores located in the south. The distribution of some products in Mexico still relies on third-party distributors.

### *Seasonality*

The Health Division's sales can be seasonal in nature with pharmaceutical drug sales affected by the timing and severity of the cough, cold and flu season. Revenues tend to be higher during the winter season but can be offset by extreme weather due to the rainy season in certain regions of Mexico in December and January. Revenues in our Chilean operation tend to be higher during December, driven by the Christmas season, mainly due to an increase in the purchase of beauty and personal care products to be given away; otherwise, early in the year during January and February, revenues tend to fall slightly, mainly driven by the holiday period.

## **Fuel Division**

### *Business Strategy*

A fundamental element of the Fuel Division's business strategy is to increase at an accelerated rate its offering of service stations, in previously identified regions in Mexico, by way of leases, procurement or construction of stations.

The Fuel Division's business strategy aims to strengthen its services in its retail gas stations in Mexico to fulfill consumers' needs and increase traffic in those service stations while developing and maintaining an attractive value proposition to draw potential customers and face the future entry of new competitors in the industry. Furthermore, the Fuel Division's service stations often have an OXXO store on the premises, strengthening the OXXO brand and complementing the value proposition.

The Fuel Division's business strategy includes the analysis and potential development of new businesses in the fuel value chain, such as the final distribution and wholesale of fuel to its own service stations and to third parties.

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### ***Service Station Locations***

As of December 31, 2016, the Fuel Division operated 382 service stations, concentrated mainly in the northern part of the country but with a presence in 16 different states throughout Mexico.

In 2016, the Fuel Division leased 70 additional service stations and built 5 new service stations.

### ***Competition***

Despite the existence of other groups competing in this sector, the Fuel Division's main competitors are small retail service station chains owned by regional family businesses, which compete in the aggregate with the Fuel Division in total sales, new station locations and labor. The biggest chains competing with the Fuel Division in terms of number of service stations are Petro-7, operated by 7-Eleven Mexico; Corpo Gas; Hidrosina and Orsan.

### ***Market and Store Characteristics***

#### ***Market Characteristics***

The retail service station market in Mexico is highly fragmented. There are currently approximately 11,500 service stations; however, the Fuel Division, with approximately 3.3% of the total number of stations, is the largest participant in this market. The majority of the retail service stations in the country are owned by small regional family businesses.

#### ***Service Station Characteristics***

Each service station under the OXXO GAS trade name comprises offices, parking lots, a fuel service area and an area for storage of gasoline in underground tanks. We are in an ongoing effort to re-brand some of our service stations with a new image featuring the trademark of OXXO GAS. This change will undoubtedly allow customers to more easily identify our service stations in the market. The average size of the fuel service dispatch area is 250 square meters. On average, each service station has 13 employees.

Gasoline, diesel, oil and additives are the main products sold at OXXO GAS service stations.

Up until April of 2016, legal restrictions prevented the Fuel Division, as a franchisee of PEMEX, from having a different supplier of gasoline. However, the current law allows other suppliers to operate in Mexico.

#### ***Advertising and Promotion***

Through promotional activities, the Fuel Division seeks to provide additional value to customers by offering, along with gasoline, oils and additives, quality products and services at affordable prices. The best tool for communicating these promotions has been coupon promotions in partnership with third parties.

#### ***Seasonality***

The Fuel Division experiences especially high demand during the months of May and August. The lowest demand is in January and December due to the rainy season and the year-end holiday period, because most service stations are not located on highways to holiday destinations.

### **Equity Investment in the Heineken Group**

As of December 31, 2016, FEMSA owned a non-controlling interest in the Heineken Group, one of the world's leading brewers. As of December 31, 2016, our 20% economic interest in the Heineken Group comprised 43,018,320 shares of Heineken Holding N.V. and 72,182,203 shares of Heineken N.V. For 2016, FEMSA recognized equity income of Ps. 6,342 million regarding its 20% economic interest in the Heineken Group; see Note 10 to our audited consolidated financial statements.





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As described above, the Retail Division has a distribution agreement with subsidiaries of Cuauhtémoc Moctezuma, now a part of the Heineken Group, pursuant to which OXXO stores in Mexico only carry beer brands produced and distributed by Cuauhtémoc Moctezuma. OXXO stores will continue to benefit from the existing relationship under which Cuauhtémoc Moctezuma will continue to be the exclusive supplier of beer to OXXO until June 2020. Coca-Cola FEMSA also agreed with Cervejarias Kaiser (also now part of the Heineken Group) to continue to distribute and sell the *Kaiser* beer portfolio in Coca-Cola FEMSA's Brazilian territories for a 20-year term beginning in 2003, consistent with the arrangement already in place. In addition, our logistic services subsidiary provides certain services to Cuauhtémoc Moctezuma and its subsidiaries.

**Other Businesses**

Our other businesses consist of the following smaller operations that support our core operations:

Our logistics services subsidiary provides a broad range of logistics and vehicle maintenance services to Coca-Cola FEMSA, FEMSA Comercio and third-party clients in the beverages, consumer products and retail industries. It has operations in Mexico, Brazil, Colombia, Panama, Costa Rica, Nicaragua and Peru.

Our refrigeration business produces vertical and horizontal commercial refrigerators for the soft drink, beer and food industries, with an annual capacity of 547,584 units at December 31, 2016. In 2016, this business sold 486,037 refrigeration units, 21% of which were sold to Coca-Cola FEMSA, and the remainder of which were sold to other clients. Also, this business includes manufacturing operations for food processing, storage and weighing equipment.

**Description of Property, Plant and Equipment**

As of December 31, 2016, Coca-Cola FEMSA owned all of its manufacturing facilities and distribution centers, consisting primarily of production and distribution facilities for its soft drink operations and office space. In addition, the Retail Division owns approximately 12% of OXXO stores, while the remaining stores are located on leased properties and substantially almost all of its warehouses are under long-term lease arrangements with third parties. The Health Division owns 7 distribution centers, 4 of which are in Chile, 2 in Mexico, and 1 in Colombia, and also includes a manufacturing facility for generic pharmaceuticals in Chile. Most of the Health Division's stores are under lease arrangements with third parties.

The table below summarizes by country the installed capacity and percentage utilization of Coca-Cola FEMSA's production facilities:

**Bottling Facility Summary**

As of December 31, 2016

| Country               | Installed Capacity<br>(thousands of unit cases) | Utilization <sup>(1)</sup><br><sup>(2)</sup><br>(%) |
|-----------------------|---|---|
| Mexico                | 2,712,271                                       | 66  |
| Guatemala             | 43,237  | 76  |
| Nicaragua             | 64,795  | 79  |
| Costa Rica            | 81,200  | 59  |
| Panama                | 63,343  | 54  |
| Colombia              | 613,011   | 49  |
| Venezuela             | 235,862   | 51  |
| Brazil <sup>(3)</sup> | 1,201,791                                       | 57  |
| Argentina             | 366,613   | 54  |

(1)

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Calculated based on each bottling facility's theoretical capacity assuming total available time in operation and without taking into account ordinary interruptions, such as planned downtime for preventive maintenance, repairs, sanitation, set-ups and changeovers for different flavors and presentations. Additional factors that affect utilization levels include seasonality of demand for our products, supply chain planning due to different geographies and different packaging capacities.

- (2) Annualized rate.
- (3) Includes the installed capacity and utilization of Coca-Cola FEMSA's plant located in Porto Real up to October 2016, when the plant was shut down to achieve cost efficiencies and expected synergies.

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The table below summarizes by country plant location and facility area of Coca-Cola FEMSA's production facilities:

**Bottling Facility by Location**

As of December 31, 2016

| Country          | Plant                               | Facility Area<br>(thousands<br>of sq. meters) |
|------------------|-------------------------------------|---|
| Mexico           | San Cristobal de las Casas, Chiapas | 45  |
|                  | Cuatitlan, Estado de Mexico         | 35  |
|                  | Los Reyes la Paz, Estado de Mexico  | 50  |
|                  | Toluca, Estado de Mexico            | 317   |
|                  | Leon, Guanajuato                    | 124   |
|                  | Morelia, Michoacan                  | 50  |
|                  | Ixtacomitan, Tabasco                | 117   |
|                  | Apizaco, Tlaxcala                   | 80  |
|                  | Coatepec, Veracruz                  | 142   |
|                  | La Pureza Altamira, Tamaulipas      | 300   |
|                  | Poza Rica, Veracruz                 | 42  |
|                  | Pacifico, Estado de Mexico          | 89  |
|                  | Cuernavaca, Morelos                 | 37  |
|                  | Toluca, Estado de Mexico (Ojuelos)  | 41  |
|                  | San Juan del Rio, Queretaro         | 84  |
|                  | Queretaro, Queretaro                | 80  |
| Cayaco, Acapulco | 104                                 |   |
| Guatemala        | Guatemala City                      | 46  |
| Nicaragua        | Managua                             | 54  |
| Costa Rica       | Calle Blancos, San Jose             | 52  |
|                  | Coronado, San Jose                  | 14  |
| Panama           | Panama City                         | 29  |
| Colombia         | Barranquilla                        | 37  |
|                  | Bogota, DC                          | 105   |
|                  | Bucaramanga                         | 26  |
|                  | Cali                                | 76  |
|                  | Manantial, Cundinamarca             | 67  |
|                  | Tocancipa                           | 298   |
| Venezuela        | Medellin                            | 47  |
|                  | Antimano                            | 15  |
|                  | Barcelona                           | 141   |
|                  | Maracaibo                           | 68  |
| Brazil           | Valencia                            | 100   |
|                  | Campo Grande                        | 36  |
|                  | Jundiai                             | 191   |
|                  | Mogi das Cruzes                     | 119   |
|                  | Maringa                             | 160   |
|                  | Marilia                             | 159   |
|                  | Curitiba                            | 119   |
|                  | Bauru                               | 39  |
|                  | Itabirito                           | 320   |
|                  | Antonio Carlos                      | 1,519   |
| Porto Alegre     | 196                                 |   |
| Santo Angelo     | 43                                  |   |

Argentina

Alcorta, Buenos Aires  
Monte Grande, Buenos Aires

73  
32

62

**Table of Contents****Insurance**

We maintain an all risk insurance policy covering our properties (owned and leased), machinery and equipment and inventories as well as losses due to business interruptions. The policy covers damages caused by natural disaster, including hurricane, hail, earthquake and damages caused by human acts, including explosion, fire, vandalism and riot. We also maintain a freight transport insurance policy that covers damages to goods in transit. In addition, we maintain a liability insurance policy that covers product liability. We purchase our insurance coverage through an insurance broker. In 2016, the policies for all risk property insurance were issued by Chubb de México, Compañía de Seguros, S.A. de C.V., policies for liability insurance were issued by Mapfre Tepeyac Seguros, S.A., and the policy for freight transport insurance was issued by AXA Seguros, S.A. de CV. Our all risk coverage was partially reinsured in the international reinsurance market. We believe that our coverage is consistent with the coverage maintained by similar companies.

**Capital Expenditures and Divestitures**

Our consolidated capital expenditures, net of disposals, for the years ended December 31, 2016, 2015 and 2014 were Ps. 22,155 million, Ps. 18,885 million and Ps. 18,163 million respectively, and were for the most part financed from cash from operations generated by our subsidiaries. These amounts were invested in the following manner:

|                        | <b>Year Ended December 31,</b>        |                   |                   |
|------------------------|---------------------------------------|-------------------|-------------------|
|                        | <b>2016</b>                           | <b>2015</b>       | <b>2014</b>       |
|                        | <b>(in millions of Mexican pesos)</b> |                   |                   |
| Coca-Cola FEMSA        | Ps. 12,391                            | Ps. 11,484        | Ps. 11,313        |
| FEMSA Comercio         |                                       |                   |                   |
| Retail Division        | 7,632                                 | 5,625             | 5,191             |
| Health Division        | 474                                   | 423               |                   |
| Fuel Division          | 299                                   | 228               |                   |
| Other                  | 1,359                                 | 1,125             | 1,659             |
| <b>Total</b>           | <b>Ps. 22,155</b>                     | <b>Ps. 18,885</b> | <b>Ps. 18,163</b> |
| <b>Coca-Cola FEMSA</b> |                                       |                   |                   |

In 2016, Coca-Cola FEMSA focused its capital expenditures on investments in (i) increasing production capacity; (ii) placing coolers with retailers; (iii) returnable bottles and cases; (iv) improving the efficiency of our distribution infrastructure; and (v) information technology. Through these measures, Coca-Cola FEMSA continuously seeks to improve its profit margins and overall profitability.

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### **FEMSA Comercio**

#### **Retail Division**

The Retail Division's principal investment activity is the construction and opening of new stores, which are mostly OXXO Stores. During 2016, FEMSA Comercio opened 1,164 net new OXXO stores. The Retail Division invested Ps. 7,632 million in 2016 in the addition of new stores, warehouses and improvements to leased properties.

#### **Health Division**

The Health Division's principal investment activity is the construction and opening of new drugstores in the countries where we operate. During 2016, the Health Division opened 74 net new drugstores in Mexico and 25 net new drugstores in Chile and Colombia. The Health Division invested Ps. 474 million in 2016 in the addition of new stores, warehouses and improvements to leased properties.

#### **Fuel Division**

In 2016, the Fuel Division's business addressed its investments on capital expenditure mainly to the addition of 75 new retail service stations. During 2016, the Fuel Division invested Ps. 299 million.

### **Regulatory Matters**

#### **Antitrust Legislation**

The *Ley Federal de Competencia Económica* (Federal Antitrust Law) regulates monopolistic practices in Mexico and requires approval of certain mergers and acquisitions. The Federal Antitrust Law subjects the activities of certain Mexican companies, including us, to regulatory scrutiny. The *Comisión Federal de Competencia Económica* (Federal Antitrust Commission, or the COFECE) is the Mexican antitrust authority, which has constitutional autonomy. COFECE has the ability to regulate essential facilities, order the divestment of assets and eliminate barriers to competition, set higher fines for violations of the Federal Antitrust Law, implement important changes to rules governing mergers and anti-competitive behavior and limit the availability of legal defenses against the application of the law.

In Mexico, we are involved in different ongoing competition related proceedings. We believe that the outcome of these proceedings will not have a material adverse effect on our financial position or results. See **Item 8. Financial Information Legal Proceedings Coca-Cola FEMSA.**

We are subject to antitrust legislation in the countries where we operate, primarily in relation to mergers and acquisitions that we are involved in. The transactions in which we participate may be subject to the requirement to obtain certain authorizations from the relevant authorities. Management believes that we are currently in compliance in all material respects with antitrust legislation in the countries where we operate.

#### **Recent Tax Reforms**

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

Since 2016, the Brazilian rates of value-added tax in certain states changed as follows: Mato Grosso do Sul from 17% to 20%; Minas Gerais, 18% and an additional 2% to be charged on sales to non-taxpayers, as a contribution to a poverty eradication fund; Rio de Janeiro, the contribution to poverty eradication increased from 1% to 2% as of April 2016; and Parana, 16% and an additional 2% to be charged on sales to non-taxpayers, as a contribution to a poverty eradication fund. In addition and specifically for sales of beer, the value-tax added tax rate increased to a maximum of 25%.

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In addition, as of January 1, 2016, the Brazilian federal production tax rates were reduced and the rates of the federal sales tax were increased, being both taxes average of 16.2% over net sales.

On January 1, 2015, a general tax reform became effective in Colombia. This reform included the imposition of a new temporary tax on net equity through 2017 to Colombian residents and non-residents who own property in Colombia directly or indirectly through branches or permanent establishments. The relevant taxable base will be determined annually based on a formula. For net equity that exceeds 5.0 billion Colombian pesos (approximately US\$ 2.1 million) the rate was 1.15% in 2015, 1.00% in 2016 and will be 0.40% in 2017. In addition, the tax reform in Colombia imposed that the supplementary income tax at a rate of 9% as contributions to social programs, which was previously scheduled to decrease to 8% by 2015, will remain indefinitely. Additionally, this tax reform included the imposition of a temporary contribution to social programs at a rate of 5%, 6%, 8% and 9% for the years 2015, 2016, 2017 and 2018, respectively. Finally, this reform establishes an income tax deduction of 2% of value-added tax paid in the acquisition or import of hard assets, such as tangible and amortizable assets that are not sold or transferred in the ordinary course of business and that are used for the production of goods or services.

On January 1, 2017, a new general tax reform became effective in Colombia. This reform reduced the corporate income tax rate from 35.0% to 34.0% for 2017 and then to 33.0% for the following years. In addition, for entities located outside of free trade zones, the reform imposed an extra income tax rate of 6.0% for 2017 and 4.0% for 2018. For taxpayers located in free trade zones, the special income tax rate increased from 15.0% to 20.0% starting in 2017. Additionally, the reform eliminated the temporary tax on net equity, the supplementary income tax of 9.0% for contributions to social programs and the temporary contribution to social programs at a rate of 5.0%, 6.0%, 8.0% and 9.0% for the years 2015, 2016, 2017 and 2018, respectively. For 2017, dividends paid to individuals that are Colombian residents will be subject to a withholding of 35.0%, and dividends paid to foreign individuals or non-Colombian resident entities will be subject to a withholding of 5.0%. This reform increased the rate of the presumptive income on net equity (*renta presuntiva sobre el patrimonio*), which is generated when a loss or low net income is recorded, from 3.0% to 3.5% for 2017. Finally, starting in 2017, the Colombian general value-added tax rate increased from 16.0% to 19.0%.

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

On November 18, 2014, a tax reform became effective in Venezuela. This reform included changes on how the carrying value of operating losses is reported. The reform established that operating losses carried forward year over year (but limited to three fiscal years) may not exceed 25% of the taxable income in the relevant period. The reform also eliminated the possibility to carry over losses relating to inflationary adjustments and included changes that grant Venezuelan tax authorities broader powers and authority in connection with their ability to enact administrative rulings related to income tax withholding and to collect taxes and increase fines and penalties for tax-related violations, including the ability to confiscate assets without a court order.

In Guatemala, the income tax rate for 2014 was 28% and it decreased for 2015 to 25%, as scheduled.

On January 27, 2016, the Chilean National Congress approved a bill with the main object of simplifying the new income tax system enacted under the Tax Reform Law published in September 2014 (Law N° 20.780). In addition, in July 2016 Chilean tax authorities issued a public ruling containing extensive guidance on the new dual income tax regimes that will apply as from January 1, 2017. The new ruling revokes previous rulings issued in 2015 and reflects changes introduced in a February 2016 law designed to simplify and clarify the 2014 tax reform law, including the provisions relating to the dual income tax regimes. Some types of taxpayers are restricted to one of the two tax regimes, but taxpayers eligible for either regime must opt into their preferred regime before December 31, 2016. Starting in 2017, Chilean taxpayers subject to the first category income tax (FCIT) will be subject to one of the following two tax regimes: (i) the fully integrated regime, under which shareholders will be taxed on their share of the profits that are accrued annually by the Chilean entity; the combined income tax rate under the regime will be 35%, (ii) the partially integrated regime, under which shareholders will be taxed when profits are distributed. The combined income tax rate under the regime generally will be 44.45% (27% plus a 35%WHT); however, foreign shareholders (Non-Chilean shareholders) that are residents in a country that has concluded a tax treaty with Chile (i.e. Mexico) will be entitled to a full tax credit, and thus may benefit from a combined rate of 35%. All entities directly or indirectly held by FEMSA are deemed under the partially integrated regime.



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### **Taxation of Sparkling Beverages**

All the countries where Coca-Cola FEMSA operates, except for Panama, impose a value-added tax on the sale of sparkling beverages, with a rate of 16.0% in Mexico, 12.0% in Guatemala, 15.0% in Nicaragua, an average percentage of 15.8% in Costa Rica, 19.0% in Colombia (applied only to the first sale in the supply chain), 12.0% in Venezuela, 21.0% in Argentina, and in Brazil 16.0% in the state of Parana, 17.0% in the state of Goias and Santa Catarina, 18.0% in the states of Sao Paulo, Minas Gerais and Rio de Janeiro, and 20.0% in the states of Mato Grosso do Sul and Rio Grande do Sul. The states of Rio de Janeiro, Minas Gerais and Parana also charge an additional 2.0% on sales to non-taxpayers as a contribution to a poverty eradication fund. In Brazil the value-added tax is grossed-up and added, along with federal sales tax, at the taxable basis. In addition, Coca-Cola FEMSA is responsible for charging and collecting the value-added tax from each of its retailers in Brazil, based on average retail prices for each state where it operates, defined primarily through a survey conducted by the government of each state, which in 2016 represented an average taxation of approximately 11.1% over net sales. In addition, several of the countries where Coca-Cola FEMSA operates impose the following excise or other taxes:

Mexico imposes an excise tax of Ps.1.00 per liter on the production, sale and importation of beverages with added sugar and HFCS as of January 1, 2014. This excise tax is applied only to the first sale and Coca-Cola FEMSA is responsible for charging and collecting it. The excise tax is subject to a 10.0% increase when accumulated inflation in Mexico on an annual basis since November 2013 reaches 10.0%. The increased tax is imposed starting on the fiscal year following such increase. As of November 2016, accumulated inflation in Mexico since November 2013 had not reached 10.0%.

Guatemala imposes an excise tax of 0.18 cents in local currency (Ps.0.49 as of December 31, 2016) per liter of sparkling beverage.

Costa Rica imposes a specific tax on non-alcoholic bottled beverages based on the combination of packaging and flavor, currently assessed at 18.46 colones (Ps.0.68 as of December 31, 2016) per 250 ml, and an excise tax currently assessed at 6.384 colones (approximately Ps.0.23 as of December 31, 2016) per 250 ml.

Nicaragua imposes a 9.0% tax on consumption, and municipalities impose a 1.0% tax on Coca-Cola FEMSA's Nicaraguan gross income.

Panama imposes a 5.0% tax based on the cost of goods produced and a 10.0% selective consumption tax on syrups, powders and concentrate.

Argentina imposes an excise tax of 8.7% on sparkling beverages containing less than 5.0% lemon juice or less than 10.0% fruit juice, and an excise tax of 4.2% on sparkling water and flavored sparkling beverages with 10.0% or more fruit juice, although this excise tax is not applicable to some of Coca-Cola FEMSA's products.

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Brazil assesses an average production tax of approximately 3.9% and an average sales tax of approximately 12.3% over net sales. Beginning on May 1, 2015, these federal taxes were applied based on the price sold, as detailed in Coca-Cola FEMSA's invoices, instead of an average retail price combined with a fixed tax rate and multiplier per presentation. Except for sales to wholesalers, these production and sales taxes apply only to the first sale and Coca-Cola FEMSA is responsible for charging and collecting these taxes from each of its retailers. For sales to wholesalers, they are entitled to recover the sales tax and charge this tax again upon the resale of Coca-Cola FEMSA's products to retailers.

Colombia's municipalities impose a sales tax that varies between 0.35% and 1.2% of net sales.

Venezuela's municipalities impose a variable excise tax applied only to the first sale that varies between 0.6% and 2.5% of net sales.

### **Price Controls**

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries where Coca-Cola FEMSA operates. Currently, there are no price controls on Coca-Cola FEMSA's products in any of the territories where it has operations, except for those in Argentina, where authorities directly supervise six of Coca-Cola FEMSA's products sold through supermarkets as a measure to control inflation, and Venezuela, where the government has imposed price controls on certain products, including bottled water. In addition, in January 2014, the Venezuelan government passed the Fair Prices Law (*Ley Orgánica de Precios Justos*), which was amended in November 2014 and once again in November 2015, mainly to increase applicable fines and penalties. The purpose of this law is to establish regulations and administrative proceedings to impose a limit on profits earned on the sale of goods, including Coca-Cola FEMSA's products, seeking to maintain price stability of, and equal access to, goods and services. A ruling derived from this law imposes an obligation to manufacturing companies to label products with the fair or maximum sales price for each product. In December 2016, Coca-Cola FEMSA's Venezuelan subsidiary requested a waiver from the Venezuelan government to stop labeling products because of the difficulty to maintain updated prices in products with low inventory turnover. Since then, Coca-Cola FEMSA stopped including a fair price label on our products. We cannot assure you that the Venezuelan government will grant the requested waiver, or that they will not impose any sanctions or fines as a result of Coca-Cola FEMSA's labeling practices. Similarly, we cannot assure you that Coca-Cola FEMSA will be in compliance at all times with these laws based on changes and market dynamics in Argentina and Venezuela and the lack of clarity of certain basic aspects of the applicable law in Venezuela. Any such changes and potential violations may have an adverse effect on our business. See **Risk Factors** **Risks Related to Our Company** **Coca-Cola FEMSA** *Regulatory developments may adversely affect Coca-Cola FEMSA's business.*

### **Environmental Matters**

In all of the countries where we operate, we are subject to federal and state laws and regulations relating to the protection of the environment. In Mexico, the principal legislation is the Federal General Law for Ecological Equilibrium and Environmental Protection (*Ley General de Equilibrio Ecológico y Protección al Ambiente*, or the Mexican Environmental Law), and the General Law for the Prevention and Integral Management of Waste (*Ley General para la Prevención y Gestión Integral de los Residuos*) which are enforced by the Ministry of the Environment and Natural Resources (*Secretaría del Medio Ambiente y Recursos Naturales*, or SEMARNAT). SEMARNAT can bring administrative and criminal proceedings against companies that violate environmental laws, and it also has the power to close non-complying facilities. Under the Mexican Environmental Law, rules have been promulgated concerning water, air and noise pollution and hazardous substances. In particular, Mexican environmental laws and regulations require that we file periodic reports with respect to hazardous wastes and set forth standards for waste water discharge that apply to Coca-Cola FEMSA's operations. Coca-Cola FEMSA is also subject to certain minor restrictions on the operation of delivery trucks in Mexico City.

In March 2015, the General Law of Climate Change (*Ley General de Cambio Climático*), its regulation and certain decrees related to such law became effective, imposing upon different industries (including the food and beverage industry) the obligation to report direct or indirect gas emissions exceeding 25,000 tons of carbon dioxide. Currently, we are not required to report these emissions, since it does not exceed this threshold. We cannot assure you that Coca-Cola FEMSA will not be required to comply with this reporting requirement in the future.

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In Coca-Cola FEMSA's Mexican operations, Coca-Cola FEMSA established a partnership with The Coca-Cola Company and Alpla, its supplier of plastic bottles in Mexico, to create Industria Mexicana de Reciclaje (IMER), a PET recycling facility located in Toluca, Mexico. This facility began operations in 2005 and has a recycling capacity of approximately 25,000 metric tons per year from which 15,000 metric tons can be re-used for food packaging purposes. Coca-Cola FEMSA has also continued contributing funds to ECOCE, A.C., a nationwide collector of containers and packaging materials. In addition, Coca-Cola FEMSA's plants located in Toluca, Reyes, Cuautitlan, Apizaco, San Cristobal, Morelia, Ixtacomitan, Coatepec, Poza Rica, Pacifico, Ojuelos, Sabino, San Juan Del Rio, Querétaro, Altamira, Victoria and Cuernavaca have received or are in the process of receiving a Certificate of Clean Industry (*Certificado de Industria Limpia*). In addition, seven of Coca-Cola FEMSA's distribution centers located in the State of Mexico, Mexico have received or are in the process of receiving a Certificate of Clean Industry.

As part of Coca-Cola FEMSA's environmental protection and sustainability strategies, in December 2009, Coca-Cola FEMSA, jointly with strategic partners, entered into a wind energy supply agreement with a Mexican subsidiary of the Spanish wind farm developer, GAMESA Energía, S.A., or GAMESA, to supply green energy to Coca-Cola FEMSA's bottling facility in Toluca, Mexico, owned by its subsidiary, Propimex, S. de R.L. de C.V., or Propimex, and to some of its suppliers of PET bottles. In 2010, GAMESA sold its interest in the Mexican entity that owned the wind farm to Iberdrola Renovables México, S.A. de C.V. This wind farm, which is located in La Ventosa, Oaxaca, generates approximately 100,000 megawatt hours annually. In 2014, 2015 and 2016, this wind farm provided Coca-Cola FEMSA with approximately 64,460, 64,430 and 57,750 megawatt hours, respectively.

Additionally, Coca-Cola FEMSA has also entered into 20-year wind power supply agreements with two suppliers to receive clean and renewable energy for use at our production and distribution facilities throughout Mexico: (a) Energía Eólica del Sur, S.A.P.I. de C.V. (formerly known as Mareña Renovables Wind Power Farm), or Energía Eólica del Sur, which is expected to begin operations in 2018; and (b) Enel Green Power which provided megawatt hours to Coca-Cola FEMSA's production and distribution facilities in 2016. In 2016, five of Coca-Cola FEMSA's manufacturing facilities received megawatt hours from renewable energy sources such as bagasse cogeneration from the PIASA Tres Valles sugar mill.

FEMSA Comercio has also entered into 20-year wind power supply agreements with four suppliers to receive clean and renewable energy for use at its convenience and drug stores throughout Mexico: (a) Energía Eólica del Sur; (b) Enel Green Power which is expected to begin operations in 2018 as well; (c) Enel Green Power which provided megawatt hours to 436 OXXO stores and 280 drug stores in 2016; and (d) Ventika, which provided megawatt hours to 2,685 OXXO stores in 2016. In 2016, 14.7% of FEMSA Comercio's energy consumption in Mexico came from renewable energy sources.

Coca-Cola FEMSA's Central American operations are subject to several federal and state laws and regulations relating to the protection of the environment, which have been enacted in the last ten years, as awareness has increased in this region about the protection of the environment and the disposal of hazardous and toxic materials, as well as water usage. Coca-Cola FEMSA's Costa Rican operations have participated in a joint effort along with the local division of The Coca-Cola Company, Misión Planeta, for the collection and recycling of non-returnable plastic bottles.

Coca-Cola FEMSA's Colombian operations are subject to several Colombian federal and state laws and regulations related to the protection of the environment and the disposal of treated water and toxic and hazardous materials. These laws include the control of atmospheric emissions, noise emissions, disposal of treated water and strict limitations on the use of chlorofluorocarbons. In addition, on February 6, 2012, Colombia promulgated Decree No. 303, which requires Coca-Cola FEMSA to apply for an authorization to discharge its water into public waterways. Coca-Cola FEMSA is engaged in nationwide reforestation programs and campaigns for the collection and recycling of glass and plastic bottles, among other programs with positive environmental impacts. Coca-Cola FEMSA has also obtained and maintained the ISO 9001, ISO 14001, OHSAS 18001, FSSC 22000 and PAS 220 certifications for its plants located in Medellin, Cali, Bogota, Barranquilla, Bucaramanga and La Calera, as recognition for the highest quality and food harmlessness in its production processes, which is evidence of Coca-Cola FEMSA's strict level of compliance with relevant Colombian regulations. Coca-Cola FEMSA's six plants joined a small group of companies that have obtained these certifications. Coca-Cola FEMSA expects its new plant located in Tocancipa, that commenced operations in February 2015, will obtain the Leadership in Energy and Environmental Design (LEED) certification in 2017.

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Coca-Cola FEMSA's Venezuelan operations are subject to several Venezuelan federal, state and municipal laws and regulations related to the protection of the environment. The most relevant of these laws are the Organic Environmental Law (*Ley Orgánica del Ambiente*), the Substance, Material and Dangerous Waste Law (*Ley Sobre Sustancias, Materiales y Desechos Peligrosos*), the Criminal Environmental Law (*Ley Penal del Ambiente*) and the Water Law (*Ley de Aguas*). Since the enactment of the Organic Environmental Law in 1995, Coca-Cola FEMSA's Venezuelan subsidiary has presented the corresponding authorities with plans to bring Coca-Cola FEMSA's production facilities and distribution centers into compliance with applicable laws, which mainly consist of building or expanding the capacity of water treatment plants in Coca-Cola FEMSA's bottling facilities. Coca-Cola FEMSA currently has water treatment plants in its bottling facilities located in the cities of Barcelona, Valencia and in its Antimano bottling plant in Caracas, and Coca-Cola FEMSA is still under construction and expansion of its current water treatment plant in its bottling facility in Maracaibo.

Coca-Cola FEMSA's Brazilian operations are subject to several federal, state and municipal laws and regulations related to the protection of the environment. Among the most relevant laws and regulations are those dealing with the emission of toxic and hazardous gases and disposal of wastewater and solid waste, soil contamination by hazardous chemicals, which impose penalties, such as fines, facility closures or criminal charges depending upon the level of non-compliance.

Coca-Cola FEMSA's production plant located in Jundiai has been recognized by the Brazilian authorities for its compliance with environmental regulations and for having standards well above those imposed by applicable law. This production plant has been certified for GAO-Q and GAO-E. In addition, the plants of Jundiai, Mogi das Cruzes, Campo Grande, Marília, Maringa, Curitiba and Bauru have been certified for (i) ISO 9001; (ii) ISO 14001 and; (iii) norm OHSAS 18001. In 2012, the Jundiai, Campo Grande, Bauru, Marília, Curitiba, Maringa and Mogi das Cruzes plants were certified in standard FSSC22000.

In November 2015, Coca-Cola FEMSA entered into two five-year wind power supply agreements with the following suppliers to receive renewable energy for use at its production and distribution facilities in Brazil: (a) Brookfield Energía Comercializadora, Ltda., which provided a total of 13,224 megawatt hours in 2016 and (b) CPFL Comercialização Brasil, S.A., which provided a total of 32,527 megawatt hours in 2016. In 2016, 11 of Coca-Cola FEMSA's Brazilian facilities received energy from renewable energy sources, which represented 24.0% of Coca-Cola FEMSA's energy consumption in Brazil.

In May 2008, a municipal regulation of the City of Sao Paulo, implemented pursuant to Law 13.316/2002, came into effect requiring Coca-Cola FEMSA to collect for recycling a specified annual percentage of plastic bottles made from PET sold in the City of Sao Paulo. Beginning in May 2011, Coca-Cola FEMSA was required to collect 90.0% of PET bottles sold. Currently, Coca-Cola FEMSA is not able to collect the entire required volume of PET bottles it sells in the City of Sao Paulo. Since Coca-Cola FEMSA does not meet the requirements of this regulation, which it believes to be more onerous than those imposed by the countries with the highest recycling standards, Coca-Cola FEMSA could be fined and be subject to other sanctions, such as the suspension of operations in any of Coca-Cola FEMSA's plants and/or distribution centers located in the City of Sao Paulo. In May 2008, when this law came into effect, Coca-Cola FEMSA and other bottlers in the City of Sao Paulo, through the Brazilian Soft Drink and Non-Alcoholic Beverage Association, or ABIR (*Associação Brasileira das Indústrias de Refrigerantes e de Bebidas Não-alcoólicas*), filed a motion requesting a court to overturn this regulation due to the impossibility of compliance. In November 2009, in response to a request by a municipal authority to provide evidence of the destination of the PET bottles sold in Sao Paulo, Coca-Cola FEMSA filed a motion presenting all of its recycling programs and requesting a more practical timeline to comply with the requirements imposed. In October 2010, the municipal authority of Sao Paulo levied a fine on Coca-Cola FEMSA's Brazilian operating subsidiary of 250,000 Brazilian reais (approximately Ps. 1.5 million as of December 31, 2016) on the grounds that the report submitted by Coca-Cola FEMSA's Brazilian operating subsidiary did not comply with the 75.0% proper disposal requirement for the period from May 2008 to May 2010. Coca-Cola FEMSA filed an appeal against this fine, which was denied by the municipal authority in May 2013. This resolution by the municipal authority is final and not subject to appeal. However, in July 2012, the State Appellate Court of Sao Paulo rendered a decision on an interlocutory appeal filed on behalf of ABIR staying the requirement to pay the fines and other sanctions imposed on ABIR's associated companies, including Coca-Cola FEMSA's Brazilian subsidiary, pending the final resolution of the appeal. Coca-Cola FEMSA is still awaiting the final resolution of the appeal filed on behalf of ABIR. In November 2016, the municipal authority filed a tax enforcement claim against Coca-Cola FEMSA's Brazilian subsidiary in order to try to collect the fine imposed in October 2010. Coca-Cola FEMSA's Brazilian subsidiary is currently analyzing its options, which include filing a motion against the collection of the fine based on the decision rendered by the State Appellate Court of Sao Paulo in July 2012. We cannot assure you that these measures will have the desired effect or that Coca-Cola FEMSA will prevail in any judicial challenge that our Brazilian subsidiary may pursue.

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In August 2010, Law No. 12.305/2010 established the Brazilian National Solid Waste Policy. This policy is based on the principle of shared responsibility between the government, companies and the public, and provides for the post-consumption return of products to companies and requires public authorities to implement waste management programs. This law is regulated by Federal Decree No. 7.404/2010, and was published in December 2010. In response to the Brazilian National Solid Waste Policy, in December 2012, a proposal of agreement was provided to the Ministry of the Environment by almost 30 associations involved in the packaging sector, including ABIR in its capacity as representative for The Coca-Cola Company, Coca-Cola FEMSA's Brazilian subsidiary and other bottlers. This agreement proposed the creation of a coalition to implement systems for reverse logistics packaging non-dangerous waste that make up the dry fraction of municipal solid waste or equivalent. The goal of the proposal is to create methodologies for sustainable development, and improve the management of solid waste by increasing recycling rates and decreasing incorrect disposal in order to protect the environment, society and the economy. The Ministry of Environment approved and signed this agreement in November 2015. In August 2016, the public prosecutor's office of the state of Sao Paulo filed a class action against the parties that signed this agreement, challenging the validity of certain terms of the agreement and the effectiveness of the mandatory measures to be taken by the companies of the packaging sector, as provided in the agreement. ABIR is leading the lawsuit's defense.

Coca-Cola FEMSA's Argentine operations are subject to federal and municipal laws and regulations relating to the protection of the environment. The most significant of these are regulations concerning waste water discharge, which are enforced by the Ministry of Natural Resources and Sustainable Development (*Secretaría de Ambiente y Desarrollo Sustentable*) and the Provincial Organization for Sustainable Development (*Organismo Provincial para el Desarrollo Sostenible*) for the province of Buenos Aires. Coca-Cola FEMSA's Alcorta plant is in compliance with environmental standards and Coca-Cola FEMSA has been, and continues to be, certified for ISO 14001:2004 for the plants and operative units in Buenos Aires.

For all of Coca-Cola FEMSA's plant operations, Coca-Cola FEMSA employs the following environmental management system Environmental Administration System, or EKOSYSTEM (*Sistema de Administración Ambiental*) that is contained within the Integral Quality System or SICKOF (*Sistema Integral de Calidad*).

Coca-Cola FEMSA has spent, and may be required to spend in the future, funds for compliance with and remediation under local environmental laws and regulations. Currently, Coca-Cola FEMSA does not believe that such costs will have a material adverse effect on its results or financial condition. However, since environmental laws and regulations and their enforcement are becoming increasingly stringent in Coca-Cola FEMSA's territories, and there is increased recognition by local authorities of the need for higher environmental standards in the countries where Coca-Cola FEMSA operates, changes in current regulations may result in an increase in costs, which may have an adverse effect on Coca-Cola FEMSA's future results or financial condition. We are not aware of any significant pending regulatory changes that would require a significant amount of additional remedial capital expenditures.

We do not believe that our business activities pose a material risk to the environment, and we believe that we are in material compliance with all applicable environmental laws and regulations.

**Water Supply**

In Mexico, Coca-Cola FEMSA obtains water directly from municipal utility companies and pump water from wells pursuant to concessions obtained from the Mexican government on a plant-by-plant basis. Water use in Mexico is regulated primarily by the 1992 Water Law (*Ley de Aguas Nacionales de 1992*), as amended, and regulations issued thereunder, which created the National Water Commission (*Comisión Nacional del Agua*). The National Water Commission is in charge of overseeing the national system of water use. Under the 1992 Water Law, concessions for the use of a specific volume of ground or surface water generally run from five to fifty-year terms, depending on the supply of groundwater in each region as projected by the National Water Commission. Concessionaires may request concession terms be extended before the expiration of the same. The Mexican government is authorized to reduce the volume of ground or surface water granted for use by a concession by whatever volume of water that is not used by the concessionaire for two consecutive years. However, because the current concessions for each of Coca-Cola FEMSA's plants in Mexico do not match each plant's projected needs for water in future years, we have successfully negotiated with the Mexican government the right to transfer the unused volume under concessions from certain plants to other plants anticipating greater water usage in the future. Coca-Cola FEMSA's concessions may be terminated if, among other things, Coca-Cola FEMSA uses more water than permitted or it fails to pay required concession-related fees and does not cure such situations in a timely manner. Although we have not undertaken independent studies to confirm the sufficiency of the existing groundwater supply, we believe that Coca-Cola FEMSA's existing concessions satisfy Coca-Cola FEMSA's current water requirements in Mexico.

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In addition, the 1992 Water Law provides that plants located in Mexico that use deep water wells to supply their water requirements must pay a fee to the local governments for the discharge of residual waste water to drainage. Pursuant to this law, certain local authorities test the quality of the waste water discharge and charge plants an additional fee for measurements that exceed certain standards published by the National Water Commission. In the case of non-compliance with the law, penalties, including closures, may be imposed. All of Coca-Cola FEMSA's bottling plants located in Mexico meet these standards. In addition, Coca-Cola FEMSA's plants in Apizaco and San Cristobal are certified with ISO 14001.

In Brazil, Coca-Cola FEMSA obtains water and mineral water from wells pursuant to concessions granted by the Brazilian government for each plant. According to the Brazilian Constitution and the National Water Resources Policy, water is considered an asset of common use and can only be exploited for the national interest by Brazilians or companies formed under Brazilian law. Concessionaires and users have the responsibility for any damage to the environment. The exploitation and use of water is regulated by the Code of Mining, Decree Law No. 227/67 (*Código de Mineração*), the Mineral Water Code, Decree Law No. 7841/45 (*Código de Águas Minerais*), the National Water Resources Policy (Decree No. 24.643/1934 and Law No. 9433/97) and by regulations issued thereunder. The companies that exploit water are supervised by the National Department of Mineral Production (*Departamento Nacional de Produção Mineiral* - DNPM) and the National Water Agency (*Agência Nacional de Águas*) in connection with federal health agencies, as well as state and municipal authorities. In the Jundiai, Marília, Curitiba, Maringá and Itabirito plants, Coca-Cola FEMSA does not exploit spring water. In the Mogi das Cruzes, Bauru and Campo Grande plants, Coca-Cola FEMSA has all the necessary permits for the exploitation of spring water.

In Colombia, in addition to natural spring water for *Manantial*, Coca-Cola FEMSA obtains water directly from wells and from utility companies. Coca-Cola FEMSA is required to have a specific concession to exploit water from natural sources. Water use in Colombia is regulated by Law No. 9 of 1979 and Decrees No. 2811 of 1974 and No. 3930 of 2010. In addition, Decree No. 303 requires Coca-Cola FEMSA to apply for water concessions and for authorization to discharge its water into public waterways. The Ministry of Environment and Sustainable Development and Regional Autonomous Corporations supervises companies that use water as a raw material for their businesses. Furthermore, in Colombia, Law No. 142 of 1994 provides that public sewer services are charged based on volume (usage). The Water and Sewerage Company of the City of Bogota has interpreted this rule to be the volume of water captured, and not the volume of water discharged by users. Based on Coca-Cola FEMSA's production process, Coca-Cola FEMSA's Colombian subsidiary discharges into the public sewer system significantly less water than the water it captures. As a result, since October 2010 Coca-Cola FEMSA's Colombian subsidiary has filed monthly claims with the Water and Sewerage Company of the City of Bogota challenging these charges. In 2015, the highest court in Colombia issued a final ruling stating that the Water and Sewerage Company of the City of Bogota is not required to measure the volume of water discharged by users in calculating public sewer services charges. Based on this ruling, the Water and Sewerage Company of the City of Bogota commenced an administrative proceeding against our Colombian subsidiary requesting payment of approximately Ps.309 million for the sewer services it claims Coca-Cola FEMSA's subsidiary has not properly paid since 2005. In connection with such proceeding, in March 2016, this authority issued an order freezing certain of our bank accounts (see Note 8.2 to our consolidated financial statements). Coca-Cola FEMSA's Colombian subsidiary is currently holding conciliatory hearings seeking to reach an agreement to settle this matter.

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In Argentina, a state water company provides water to Coca-Cola FEMSA's Alcorta plant on a limited basis; however, Coca-Cola FEMSA believes the authorized amount meets its requirements for this plant. In Coca-Cola FEMSA's Monte Grande plant in Argentina, it pumps water from wells, in accordance with Law No. 25.688.

In Nicaragua, the use of water is regulated by the National Water Law (*Ley General de Aguas Nacionales*), and Coca-Cola FEMSA obtains water directly from wells. In Costa Rica, the use of water is regulated by the Water Law (*Ley de Aguas*). In both of these countries, Coca-Cola FEMSA exploits water from wells granted to it through governmental concessions. In Guatemala, no license or permits are required to exploit water from the private wells in Coca-Cola FEMSA's own plants. In Panama, Coca-Cola FEMSA acquires water from a state water company, and the use of water is regulated by the Panama Use of Water Regulation (*Reglamento de Uso de Aguas de Panamá*).

In Venezuela, Coca-Cola FEMSA uses private wells in addition to water provided by the municipalities, and it has taken the appropriate actions, including actions to comply with water regulations, to have water supply available from these sources, regulated by the Water Law (*Ley de Aguas*).

In addition, Coca-Cola FEMSA obtains water for the production of some of its natural spring water products, such as *Manantial* in Colombia and *Crystal* in Brazil, from spring water pursuant to concessions granted.

We cannot assure that water will be available in sufficient quantities to meet Coca-Cola FEMSA's future production needs, that Coca-Cola FEMSA will be able to maintain its current concessions or that additional regulations relating to water use will not be adopted in the future in Coca-Cola FEMSA's territories. We believe Coca-Cola FEMSA is in material compliance with the terms of its existing water concessions and that Coca-Cola FEMSA is in compliance with all relevant water regulations currently in place.

## **Other Regulations**

In January 2012, the Costa Rican government approved a decree which regulates the sale of food and beverages in public schools. According to the decree, the sale of all sparkling beverages and certain still beverages that contain certain amounts of sugar, syrup or HFCS in any type of presentation in schools is prohibited. Coca-Cola FEMSA is still allowed to sell water and certain still beverages in schools. Although Coca-Cola FEMSA is in compliance with this law, we cannot assure you that the Costa Rican government will not further restrict sales of other of Coca-Cola FEMSA's products in schools in the future; these restrictions and any further restrictions could have an adverse impact on Coca-Cola FEMSA's results of operations.

In May 2012, the Venezuelan government adopted significant changes to labor regulations that had a negative impact on Coca-Cola FEMSA's business and operations. The principal changes that impacted Coca-Cola FEMSA's operations were and still are: (i) the requirement that employee terminations are now subject to governmental authorization; (ii) retroactive assessments for any modifications to our severance payment system; (iii) a reduction in the maximum daily and weekly working hours (from 44 to 40 weekly); (iv) an increase in mandatory weekly breaks, prohibiting a reduction in salaries as a result of such increase; and (v) the requirement that all third party contractors participating in the manufacturing and sales processes of our products be included in our payroll. Coca-Cola FEMSA is currently in compliance with these labor regulations.

In September 2012, the Brazilian government issued Law No. 12,619 (Law of Professional Drivers), which regulates the working hours of professional drivers who distribute Coca-Cola FEMSA's products from its plants to the distribution centers and to retailers and points of sale. Pursuant to this law, employers must keep a record of working hours, including overtime hours, of professional drivers in a reliable manner, such as electronic logbooks or worksheets. Coca-Cola FEMSA is currently in compliance with this law.

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In August 2013, the current Mexican president, Enrique Peña Nieto, proposed a constitutional reform to provide for modernization and growth of the Mexican energy sector (the Mexican Energy Reform). Following intense review of and debate on the proposal, in December 2013 the Mexican government approved a decree containing amendments and additions to the Mexican Constitution in matters of energy. The Mexican Energy Reform provides for the opening of the Mexican energy market to the participation of private parties including companies with foreign investment, allowing for FEMSA Comercio to participate directly in the retail of fuel products. However, secondary legislation and regulation of the approved Mexican Energy Reform is in transition, and deregulation of fuel prices will be conducted gradually; starting in March 2017 in the states of Baja California and Sonora and concluding in December 2017 in the states of the Yucatan peninsula. Gasoline and diesel prices are established by the Mexican executive power by decree, taking into account the price of petroleum, currency exchange rates, taxes, transportation cost differences between regions and other factors, and starting January 1, 2018, retail prices for gasoline and diesel will be freely determined by market conditions. As part of the secondary legislation in connection with the Mexican Energy Reform, the *Agencia de Seguridad, Energía y Ambiente* (the Security, Energy and Environment Agency, or ASEA) was created as a decentralized administrative body of SEMARNAT. ASEA is responsible for regulating and supervising industrial and operational safety and environmental protection in the installations and activities of the hydrocarbons sector, which includes all our Fuel Division operations. Additionally, the *Comisión Reguladora de Energía* (the Energy Regulatory Commission, or CRE) is the regulatory body responsible for the authorization of sale of fuel to the public at gas stations. The Fuel Division is in compliance with ASEA and CRE regulations and administrative provisions.

In May 2014, the Mexican government approved a decree that established mandatory guidelines applicable to the entire national education system (from elementary school through college). According to the decree, the sale of specific sparkling beverages and still beverages that contain certain amounts of sugar or HFCS by schools is prohibited. Schools are still allowed to sell water and certain still beverages, such as juices and juice-based beverages that comply with the guidelines established in such decree. We cannot assure you that the Mexican government will not further restrict sales of other of Coca-Cola FEMSA's products in schools. These restrictions and any further restrictions could have an adverse impact on Coca-Cola FEMSA's results of operations.

In November 2014, the Venezuelan government amended the Foreign Investment Law. As part of the amendments made, the law now provides that at least 75.0% of the value of foreign investment must be comprised of assets located in Venezuela, which may include equipment, supplies or other goods or tangible assets required at the early stages of operations. By the end of the first fiscal year after commencement of operations in Venezuela, investors will be authorized to repatriate up to 80.0% of the profits derived from their investment. Any profits not otherwise repatriated in a fiscal year, may be accumulated and be repatriated the following fiscal year, together with profits generated during such year. In the event of liquidation, a company may repatriate up to 85.0% of the value of the foreign investment. Currently, the scope of this law is not entirely clear with respect to the liquidation process.

In June 2014, the Brazilian government enacted Law No. 12,997 (Law of Motorcycle Drivers), which requires employers to pay a risk premium of 30.0% of the base salary to all employees that are required to drive a motorcycle to perform their job duties. This premium became enforceable in October 2014, when the related rules and regulations were issued by the Ministry of Labor and Employment. Coca-Cola FEMSA believes that these rules and regulations (Decree No. 1.565/2014) were unduly issued because such Ministry did not comply with all the requirements of applicable law (Decree No. 1.127/2003). In November 2014, Coca-Cola FEMSA's Brazilian subsidiary, in conjunction with other bottlers of the Coca-Cola system in Brazil and through the ABIR, filed a claim before the Federal Court to stay the effects of such decree. ABIR's associated companies, including Coca-Cola FEMSA's Brazilian subsidiary, were issued a preliminary injunction staying the effects of the decree and exempting Coca-Cola FEMSA from paying the premium. The Ministry of Labor and Employment filed an interlocutory appeal against the preliminary injunction in order to restore the effects of Decree No. 1.565/2014. This interlocutory appeal was denied. In October 2016, a decision was rendered by the Federal Court declaring Decree No. 1.565/2014 to be null and void and requesting the Ministry of Labor and Employment to revise and reissue its regulations under Law No. 12,997. The Ministry of Labor and Employment, with the participation of all interested parties, is in the process of revising Decree No. 1.565/2014. We cannot assure you that any changes made to Decree No. 1.565/2014 will not have an adverse effect on Coca-Cola FEMSA's business.

In January 2014, a new Anti-Corruption Law in Brazil came into effect, which regulates bribery, corruption practices and fraud in connection with agreements entered into with governmental agencies. The main purpose of this law is to impose liability on companies carrying out such practices, establishing fines that can reach up to 20.0% of a company's gross revenues in the previous fiscal year. Although we believe Coca-Cola FEMSA is in compliance with this law, if Coca-Cola FEMSA were found liable for any of these practices, this law may have an adverse effect on Coca-Cola FEMSA's business.



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In December 2015, the Venezuelan Ministry of Health issued a resolution which imposes an obligation to label certain products, including sparkling beverages and still beverages that contain sugar, with health warnings. In February 2015, the Venezuelan Ministry of Health granted a nine-month extension for the enforcement of this resolution. In July 2016, the Ministry of Health declared this resolution null and void. The Venezuelan government is currently discussing the issuance and application of new rules in connection with health warning labels on products.

In all of the countries where the Health Division operates, we are subject to local laws, regulations and administrative practices concerning retail and wholesale pharmacy operations, regulations prohibiting kickbacks, beneficiary inducement and the submission of false claims, licensure and registration requirements concerning the operation of pharmacies and the practice of pharmacy health regulation, as well as other health care laws and regulations. We believe that the Health Division is in material compliance with all such applicable laws, regulations and administrative practices.

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### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

The following discussion should be read in conjunction with, and is entirely qualified by reference to, our audited consolidated financial statements and the notes to those financial statements. Our consolidated financial statements were prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board ( IASB ).

#### **Overview of Events, Trends and Uncertainties**

Management currently considers the following events, trends and uncertainties to be important to understanding its results and financial position during the periods discussed in this section:

Coca-Cola FEMSA has continued to grow organic volumes at a steady but moderate pace, highlighting Mexico where operative results were strong. However, in the short term there is some pressure from macroeconomic uncertainty in certain South American markets, including currency volatility. Volume growth is mainly driven by the *Coca-Cola* brand across markets, together with the solid performance of Coca-Cola FEMSA's still beverage portfolio

The Retail Division has maintained high rates of store openings across formats and continues to grow at solid rates in terms of total revenues. The Retail Division has lower operating margins than our beverage business. Given that the Retail Division has lower operating margins and given its fixed cost structure, it is more sensitive to changes in sales which could negatively affect operating margins.

The Health Division has continued its moderate rate of revenue growth, highlighting the strong growth trends delivered by Socofar's operations in Chile and Colombia, partially benefited from a positive foreign exchange translation effect. However, in Mexico, the continued expansion across new territories and the integration process of its four legacy brands into a single business platform are pressuring the Health Division's results in the short term. Additionally, currency volatility between the Chilean and Colombian peso, compared with the Mexican peso, could further affect the Health Division's results.

The Fuel Division has continued its steady expansion across certain regions in Mexico. The implementation of the Mexican Energy Reform enacted by the current administration, which could result in certain business opportunities for the Fuel Division, is moving forward but it is still subject to further regulatory changes that could bring more uncertainties to the industry in the short and medium term. Macroeconomic uncertainties that affect gasoline prices can also put pressure on the Fuel Division's operating margins, which are structurally lower than those of FEMSA Comercio's other divisions.

Our consolidated results are also significantly affected by the performance of the Heineken Group, as a result of our 20% economic interest. Our consolidated net income for 2016 included Ps. 6,342 million related to our non-controlling interest in the Heineken Group, as compared to Ps. 5,879 million for 2015.

Our results and financial position are affected by the economic and market conditions in the countries where our subsidiaries conduct their operations, particularly in Mexico. Changes in these conditions are influenced by a number of factors, including those discussed in **Item 3. Key Information Risk Factors**.

#### **Recent Developments**

Since January 25, 2017, Coca-Cola FEMSA has had control of KOF Philippines as all decisions relating to the day-to-day operation and management of KOF Philippines's business, including its annual normal operations plan, are now approved by a majority of KOF Philippines's

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board of directors, without requiring the affirmative vote of any director appointed by The Coca-Cola Company. Beginning on February 1, 2017, Coca-Cola FEMSA started consolidating KOF Philippines' s financial results in its financial statements. The results for the first quarter of 2017 and future results in 2017 will reflect a reduction in Coca-Cola FEMSA' s share of the profit of associates and joint ventures, accounted for using the equity method, as a result of this consolidation. For further information, see Note 28 to our audited consolidated financial statements.

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In January 2017, FEMSA Comercio, through its subsidiary Cadena Comercial USA Corporation, LLC., completed the acquisition of the remaining 20% economic stake in Specialty s and became its sole owner.

In February 2017, Heineken announced that it had reached an agreement to acquire Brasil Kirin Holding S.A ( Brasil Kirin ) for consideration of 664 million. The transaction is expected to close in the first half of 2017. We will recognize the results of operation of this business combination using the equity method, once Brasil Kirin has been consolidated in the financial statements of Heineken.

In March 2017, Coca-Cola FEMSA acquired, through Jugos del Valle and its Brazilian, Argentine and Colombian subsidiaries, a participation in the Mexican, Brazilian, Argentine and Colombian AdeS soy-based beverage business. As a result of this acquisition, Coca-Cola FEMSA has exclusive distribution rights of AdeS soy-based beverages in these territories.

### **Effects of Changes in Economic Conditions**

Our results are affected by changes in economic conditions in Mexico, Brazil and in the other countries where we operate. For the years ended December 31, 2016, 2015, and 2014, 64%, 70% and 68% respectively, of our total sales were attributable to Mexico. Other than Venezuela and Chile, the participation of these other countries as a percentage of our total sales has not changed significantly during the last five years.

The Mexican economy is gradually recovering from the impact of the global financial crisis on many emerging economies in 2009. According to the INEGI, Mexican GDP expanded by 2.3% in 2016 and by approximately 2.6% and 2.3% in 2015 and 2014, respectively. According to the *Banco Nacional de México* survey regarding the economic expectations of specialists, Mexican GDP is expected to increase by 1.49% in 2017, as of the latest estimate, published on April 3, 2017. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in, or delays in the recovery of, the U.S. economy may hinder any recovery in Mexico.

Our results are affected by the economic conditions in the countries where we conduct operations. Some of these economies continue to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in the U.S. economy may affect these economies. Deterioration or prolonged periods of weak economic conditions in the countries where we conduct operations may have, and in the past have had, a negative effect on our company and a material adverse effect on our results and financial condition. Our business may also be significantly affected by the interest rates, inflation rates and exchange rates of the currencies of the countries where we operate. Decreases in growth rates, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our products, lower real pricing of our products or a shift to lower margin products. In addition, an increase in interest rates would increase the cost to us of variable rate funding, which would have an adverse effect on our financial position.

Beginning in the fourth quarter of 2014 and through 2016, the exchange rate between the Mexican peso and the U.S. dollar fluctuated from a low of Ps. 13.39 per US\$ 1.00, to a high of Ps. 20.84 per US\$ 1.00. At December 30, 2016, the exchange rate (noon buying rate) was Ps. 20.6170 per US\$ 1.00. On April 12, 2017, this exchange rate was Ps. 18.7665 per US\$ 1.00. **See Item 3. Key Information Exchange Rate Information.** A depreciation of the Mexican peso or local currencies in the countries where we operate relative to the U.S. dollar increases our cost of raw materials priced in U.S. dollars, including raw materials whose prices are set with reference to the U.S. dollar. In addition, a depreciation of the Mexican peso or local currencies in the countries where we operate relative to the U.S. dollar will increase our U.S. dollar-denominated debt obligations, which could negatively affect our financial position and results. However, this effect could be offset by a corresponding appreciation of our U.S. dollar-denominated cash position.

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### **Operating Leverage**

Companies with structural characteristics that result in margin expansion in excess of sales growth are referred to as having high operating leverage.

The operating subsidiaries of Coca-Cola FEMSA are engaged, to varying degrees, in capital-intensive activities. The high utilization of the installed capacity of the production facilities results in better fixed cost absorption, as increased output results in higher revenues without additional fixed costs. Absent significant increases in variable costs, gross profit margins will expand when production facilities are operated at higher utilization rates. Alternatively, higher fixed costs will result in lower gross profit margins in periods of lower output.

In addition, the commercial operations of Coca-Cola FEMSA are carried out through extensive distribution networks, the principal fixed assets of which are warehouses and trucks and are designed to handle large volumes of beverages. Fixed costs represent an important proportion of the total distribution expense of Coca-Cola FEMSA. Generally, the higher the volume that passes through the distribution system, the lower the fixed distribution cost as a percentage of the corresponding revenues. As a result, operating margins improve when the distribution capacity is operated at higher utilization rates. Alternatively, periods of decreased utilization because of lower volumes will negatively affect our operating margins.

FEMSA Comercio's operations are characterized by low margin and relatively high fixed costs. These two characteristics make FEMSA Comercio a business with an operating margin that might be affected more easily by a change in sales levels.

### **Critical Accounting Judgments and Estimates**

In the application of our accounting policies, which are described in Note 2.3 to our audited consolidated financial statements, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond our control. Such changes are reflected in the assumptions when they occur.

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

Intangible assets with indefinite lives including goodwill are subject to annual impairment tests. Impairment exists when the carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arms 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, we initially calculate an estimation of the value in use of the cash-generating units to which such assets have been allocated. Impairment losses are recognized in current earnings in the period the related impairment is determined.

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We assess 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, we estimate the asset's recoverable amount. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The key assumptions used to determine the recoverable amount for our CGUs, including a sensitivity analysis, are further explained in Notes 3.16 and 12 to our audited consolidated financial statements.

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

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

### *Employee benefits*

We regularly evaluate the reasonableness of the assumptions used in our post-employment and other long-term employee benefit computations. Information about such assumptions is described in Note 16 to our audited consolidated financial statements.

### *Income taxes*

Deferred income tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. We regularly review our deferred tax assets for recoverability, and record a deferred tax asset based on our judgment regarding the probability of historical taxable income continuing in the future, projected future taxable income and the expected timing of the reversals of existing temporary differences, see Note 24 to our audited consolidated financial statements.

### *Tax, labor and legal contingencies and provisions*

We are subject to various claims and contingencies, related to tax, labor and legal proceedings as described in Note 25 to our audited consolidated financial statements. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. We periodically assess 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, we accrue a provision for the estimated loss. Our 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.

### *Valuation of financial instruments*

We are required to measure all derivative financial instruments at fair value. The fair values of derivative financial instruments are determined considering quoted prices in recognized markets. If such instruments are not traded, fair value is determined by applying techniques based upon technical models supported by sufficient reliable and verifiable data, recognized in the financial sector. We base our forward price curves upon market price quotations. We believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments, see Note 20 to our audited consolidated financial statements.

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### *Business combinations*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by us, liabilities assumed by us to the former owners of the acquiree and the equity interests issued by us in exchange for control of the acquiree.

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

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

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

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

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

For each acquisition, our judgment must be exercised to determine the fair value of the assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. In particular, we must apply estimates or make judgments as to what techniques to use, especially in forecasting CGU's cash flows, computing WACC and estimating inflation as part of the identification of intangible assets with indefinite lives (mainly, goodwill, distribution and trademark rights).

### *Judgments*

In the process of applying our accounting policies, we have made the following judgments which have the most significant effects on the amounts recognized in the consolidated financial statements.

### *Investments in associates*

If we hold, directly or indirectly, 20 percent or more of the voting power of the investee, it is presumed that we have significant influence, unless it can be clearly demonstrated that this is not the case. If we hold, directly or indirectly, less than 20 percent of the voting power of the investee, it is presumed that we do 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 percent-owned corporate investee require a careful evaluation of voting rights and their impact on our ability to exercise significant influence. We consider the existence of the following circumstances which may indicate that we are in position to exercise significant influence over a less than 20 percent-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 us and the investee;

Interchange of managerial personnel; or

Provision of essential technical information.



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We also consider the existence and effect of potential voting rights that are currently exercisable or currently convertible when assessing whether we have significant influence.

In addition, we evaluate certain indicators that provide evidence of significant influence, such as:

Whether the extent of our ownership is significant relative to other shareholders (i.e. a lack of concentration of other shareholders);

Whether our significant shareholders, fellow subsidiaries or officers hold additional investment in the investee; and

Whether we are part of significant investee committees, such as the executive committee or the finance committee.

### *Joint arrangements*

An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. When we are a party to an arrangement we shall assess whether the contractual arrangement gives all the parties or a group of the parties, control of the arrangement collectively; joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively. We need 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, we consider the following facts and circumstances such as:

Whether all the parties, or a group of the parties, control the arrangement, considering the definition of joint control, as described in note 3.11.2 to our audited consolidated financial statements; and

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

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

Starting in February 2017 Coca-Cola FEMSA will take control over the relevant activities of KOF Philippines in accordance with the shareholders agreements and will consolidate KOF Philippines results. See Note 28.

### *Venezuela exchange rates and consolidation*

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

As is also explained in Note 3.3 to our audited consolidated financial statements, we believe that we currently control our subsidiary operations in Venezuela but we recognize the challenging economic and political environment in Venezuela. Should we in the future conclude that we no longer control such operations, our consolidated financial statements would change by material amounts.

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**Future Impact of Recently Issued Accounting Standards not yet in Effect**

We have not applied the following standards and interpretations that are issued but were not yet effective as of the date of issuance of our consolidated financial statements. We intend to adopt these standards, if applicable, when they become effective:

***IFRS 15, Revenue from Contracts with Customers***

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

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

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

With regards to the Coca-Cola FEMSA reportable segment, revenue streams are mainly related to the sale of finished products and delivery of promotional products, which are currently recognized in the income statement when we transfer such goods to our customers. This revenue stream is supported by contracts maintained with different companies in the retail industry through both traditional and modern channels, in which prices with these customers are constantly negotiated due to the high turnover of our products and to remain competitive in the market. We are evaluating the potential impacts that the adoption of IFRS 15 may have on our consolidated financial statements. As part of this process, we are assessing whether such negotiations should be considered as modifications to the contracts and whether each transaction represents a separate performance obligation with the customer to be accounted for once the particular goods are delivered. Additionally, we are analyzing if any discounts offered to clients are already considered in each negotiation and recognized net of the related revenue and whether embedded derivatives may exist as well as significant financial components or agent or principal considerations as relate to our operation. Upon adoption of the new standard, other potential impacts could be identified as our new revenue accounting policy is developed and applied.

With regards to FEMSA Comercio, revenue streams are mainly related to direct sales to end consumers, in which discounts are also offered directly in the price per product available. This revenue stream is currently recognized in the income statement when we transfer such goods to our customers at the point of sale. Additionally, we provide certain services in which we act as an agent and recognize the corresponding net revenue in the income statement at the moment at which the transaction has been completed physically in the stores as meeting our performance obligation (i.e. sale of prepaid telephone minutes or other prepaid cards and services). We are analyzing whether embedded derivatives may exist as well as significant financial components or other agent or principal considerations as relate to this segment. Upon adoption of the new standard, other potential impacts could be identified as our new revenue accounting policy is developed and applied.

With regards to our other reportable segments, revenues are mainly related to contracts made directly with the end consumer, in which there are no discounts offered directly in the price of the contract. This revenue stream is currently recognized in the income statement when we provide such services according to the conditions in the contract. We are analyzing whether embedded derivatives may exist as well as significant financial components or other agent or principal considerations as relate to these segments. Upon adoption of the new standard, other potential impacts could be identified as our new revenue accounting policy is developed and applied.

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We have yet to complete our evaluation of whether there will be a significant impact as a consequence of this standard's adoption in the consolidated financial statements.

### ***IFRS 9, Financial Instruments***

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

We plan to adopt the new standard on the required effective date. We are analyzing what impact the three aspects of IFRS 9 may have based on currently available information. Our conclusions may be subject to change based on further detailed analyses or additional reasonable and supportable information being made available to us in the future. Upon adoption of the new standard, other potential impacts could be identified as our new revenue accounting policy is developed and applied.

### ***IFRS 16, Leases***

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

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

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

We are currently in the process of performing our evaluation of the potential impacts that the adoption of IFRS 16 may have on our consolidated financial statements. As part of such process, we are assessing by reportable segment the different lease contracts, mainly those in which we act as a lessee as well as other contracts in which the definition of a lease could be met independent of our legal form. Based on the ongoing assessment, we may experience a material impact from the adoption of IFRS 16 on our consolidated financial statements, especially as relates to the Retail Division, the Fuel Division and the Health Division reportable segments, which have significant real estate leases.

We are in the process of quantifying the effects of IFRS 16 as well as developing our accounting policy under the new standard. This process includes evaluating those lease contracts that may qualify for the accounting exceptions provided by the standard for those assets considered as low value and developing judgments on potentially subjective matters, particularly in respect of the definition of a lease and the assessment of a lease term.

**Table of Contents****Amendments to IAS 7, *Disclosure Initiative***

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

Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. The new disclosure requirements also relate to changes in financial assets if they meet the same definition.

These amendments are effective for annual periods beginning on or after January 1, 2017 with earlier application permitted, and entities need not provide comparative information when they first apply them. We are in the process of assessing the potential impacts from the adoption of these amendments on our consolidated financial statements.

**Amendments to IAS 12, *Recognition of Deferred Tax Assets for Unrealized Losses***

The amendments to IAS 12 clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary differences. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. We are in the process of assessing the potential impacts from the adoption of these amendments on our consolidated financial statements. We do not expect a significant impact on our consolidated financial statements.

**Operating Results**

The following table sets forth our consolidated income statement under IFRS for the years ended December 31, 2016, 2015, and 2014:

|                          | Year Ended December 31,                         |             |             |             |
|--------------------------|---|-------------|-------------|-------------|
|                          | 2016 <sup>(1)</sup>                             | 2016        | 2015        | 2014        |
|                          | (in millions of U.S. dollars and Mexican pesos) |             |             |             |
| Net sales                | \$ 19,335                                       | Ps. 398,622 | Ps. 310,849 | Ps. 262,779 |
| Other operating revenues | 42  | 885         | 740         | 670         |
| Total revenues.          | 19,377  | 399,507     | 311,589     | 263,449     |
| Cost of goods sold       | 12,189  | 251,303     | 188,410     | 153,278     |
| Gross profit             | 7,188   | 148,204     | 123,179     | 110,171     |
| Administrative expenses  | 714   | 14,730      | 11,705      | 10,244      |
| Selling expenses         | 4,634   | 95,547      | 76,375      | 69,016      |
| Other income             | 56  | 1,157       | 423         | 1,098       |
| Other expenses           | 287   | 5,909       | 2,741       | 1,277       |
| Interest expense         | 468   | 9,646       | 7,777       | 6,701       |
| Interest income          | 63  | 1,299       | 1,024       | 862         |



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|   | Year Ended December 31,                         |                   |                   |                   |
|---|---|-------------------|-------------------|-------------------|
|   | 2016 <sup>(1)</sup>                             | 2016              | 2015              | 2014              |
|   | (in millions of U.S. dollars and Mexican pesos) |                   |                   |                   |
| Foreign exchange gain (loss), net   | 55  | 1,131             | (1,193)           | (903)             |
| Monetary position gain (loss), net  | 117   | 2,411             | (36)              | (319)             |
| Market value gain on financial instruments  | 9   | 186               | 364               | 73                |
| Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method | 1,385   | 28,556            | 25,163            | 23,744            |
| Income taxes  | 383   | 7,888             | 7,932             | 6,253             |
| Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes                  | 316   | 6,507             | 6,045             | 5,139             |
| <b>Consolidated net income</b>  | <b>\$ 1,318</b>                                 | <b>Ps. 27,175</b> | <b>Ps. 23,276</b> | <b>Ps. 22,630</b> |
| Controlling interest net income   | 1,025   | 21,140            | 17,683            | 16,701            |
| Non-controlling interest net income   | 293   | 6,035             | 5,593             | 5,929             |
| <b>Consolidated net income</b>  | <b>\$ 1,318</b>                                 | <b>Ps. 27,175</b> | <b>Ps. 23,276</b> | <b>Ps. 22,630</b> |

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 20.6170 to US\$ 1.00, provided solely for the convenience of the reader.

The following table sets forth certain operating results by reportable segment under IFRS for each of our segments for the years ended December 31, 2016, 2015 and 2014.

|                           | Year Ended December 31,                           |                          |             |                     |                                 | 2015 vs.<br>2014 <sup>(9)</sup> |
|---------------------------|---|--------------------------|-------------|---------------------|---------------------------------|---------------------------------|
|                           | 2016  | 2015                     |             | 2014 <sup>(8)</sup> | 2016 vs. 2015                   |                                 |
|                           |   | as reported<br>last year |             |                     | Percentage Growth<br>(Decrease) |                                 |
|                           | (in millions of Mexican pesos, except<br>margins) |                          |             |                     |                                 |                                 |
| <b>Net sales</b>          |   |                          |             |                     |                                 |                                 |
| Coca-Cola FEMSA           | Ps. 177,082                                       | Ps. 151,914              | Ps. 151,914 | Ps. 146,948         | 16.6%                           | 3.4%                            |
| FEMSA Comercio            |   |                          |             |                     |                                 |                                 |
| Retail Division           | 137,031   | 119,838                  | 132,891     | 109,624             | 14.3%                           | 21.2%                           |
| Health Division           | 43,411  | 13,053                   |             |                     | 232.6%                          |                                 |
| Fuel Division             | 28,616  | 18,510                   | 18,510      |                     | 54.6%                           |                                 |
| <b>Total revenues</b>     |   |                          |             |                     |                                 |                                 |
| Coca-Cola FEMSA           | 177,718   | 152,360                  | 152,360     | 147,298             | 16.6%                           | 3.4%                            |
| FEMSA Comercio            |   |                          |             |                     |                                 |                                 |
| Retail Division           | 137,139   | 119,884                  | 132,891     | 109,624             | 14.4%                           | 21.2%                           |
| Health Division           | 43,411  | 13,053                   |             |                     | 232.6%                          |                                 |
| Fuel Division             | 28,616  | 18,510                   | 18,510      |                     | 54.6%                           |                                 |
| <b>Cost of goods sold</b> |   |                          |             |                     |                                 |                                 |
| Coca-Cola FEMSA           | 98,056  | 80,330                   | 80,330      | 78,916              | 22.1%                           | 1.8%                            |
| FEMSA Comercio            |   |                          |             |                     |                                 |                                 |
| Retail Division           | 86,149  | 76,235                   | 85,600      | 70,238              | 13.0%                           | 21.9%                           |
| Health Division           | 30,673  | 9,365                    |             |                     | 227.5%                          |                                 |
| Fuel Division             | 26,368  | 17,090                   | 17,090      |                     | 54.3%                           |                                 |
| <b>Gross profit</b>       |   |                          |             |                     |                                 |                                 |
| Coca-Cola FEMSA           | 79,662  | 72,030                   | 72,030      | 68,382              | 10.6%                           | 5.3%                            |
| FEMSA Comercio            |   |                          |             |                     |                                 |                                 |
| Retail Division           | 50,990  | 43,649                   | 47,291      | 39,386              | 16.8%                           | 20.1%                           |

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|                 |        |       |       |        |
|-----------------|--------|-------|-------|--------|
| Health Division | 12,738 | 3,688 |       | 245.4% |
| Fuel Division   | 2,248  | 1,420 | 1,420 | 58.3%  |

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|   | Year Ended December 31,   |        |                          |                                 | 2015 vs.<br>2014 <sup>(9)</sup> |                       |
|---|---|--------|--------------------------|---------------------------------|---------------------------------|-----------------------|
|   | 2016  | 2015   | 2014 <sup>(8)</sup>      | 2016 vs. 2015                   |                                 |                       |
|   | restated<br>for<br>comparative<br>purposes<br>(in millions of Mexican pesos, except<br>margins) |        | as reported<br>last year | Percentage Growth<br>(Decrease) |                                 |                       |
| <b>Administrative expenses</b>  |   |        |                          |                                 |                                 |                       |
| Coca-Cola FEMSA   | 7,423   | 6,405  | 6,405                    | 6,385                           | 15.9%                           | 0.3%                  |
| FEMSA Comercio  |   |        |                          |                                 |                                 |                       |
| Retail Division   | 2,924   | 2,487  | 2,868                    | 2,042                           | 17.6%                           | 40.5%                 |
| Health Division   | 1,769   | 414    |                          |                                 | 327.3%                          |                       |
| Fuel Division   | 127   | 88     | 88                       |                                 | 44.3%                           |                       |
| <b>Selling expenses</b>   |   |        |                          |                                 |                                 |                       |
| Coca-Cola FEMSA   | 48,039  | 41,879 | 41,879                   | 40,465                          | 14.7%                           | 3.5%                  |
| FEMSA Comercio  |   |        |                          |                                 |                                 |                       |
| Retail Division   | 36,341  | 30,631 | 33,305                   | 28,492                          | 18.6%                           | 16.9%                 |
| Health Division   | 9,365   | 2,682  |                          |                                 | 249.2%                          |                       |
| Fuel Division   | 1,865   | 1,124  | 1,124                    |                                 | 65.8%                           |                       |
| <b>Depreciation</b>   |   |        |                          |                                 |                                 |                       |
| Coca-Cola FEMSA   | 7,579   | 6,310  | 6,310                    | 6,072                           | 20.1%                           | 3.9%                  |
| FEMSA Comercio  |   |        |                          |                                 |                                 |                       |
| Retail Division   | 3,607   | 3,027  | 3,182                    | 2,779                           | 19.2%                           | 14.5%                 |
| Health Division   | 546   | 155    |                          |                                 | 252.3%                          |                       |
| Fuel Division   | 82  | 56     | 56                       |                                 | 46.4%                           |                       |
| <b>Gross margin<sup>(1)(2)</sup></b>  |   |        |                          |                                 |                                 |                       |
| Coca-Cola FEMSA   | 44.8%   | 47.3%  | 47.3%                    | 46.4%                           | (2.5)p.p.                       | 0.9p.p.               |
| FEMSA Comercio  |   |        |                          |                                 |                                 |                       |
| Retail Division   | 37.2%   | 36.4%  | 35.6%                    | 35.9%                           | 0.8p.p.                         | (0.3)p.p.             |
| Health Division   | 29.3%   | 28.3%  |                          |                                 | 1.1p.p.                         |                       |
| Fuel Division   | 7.9%  | 7.7%   | 7.7%                     |                                 | 0.2p.p.                         |                       |
| <b>Share of the profit of associates and joint ventures<br/>accounted for using the equity method, net of taxes</b> |   |        |                          |                                 |                                 |                       |
| Coca-Cola FEMSA   | 147   | 155    | 155                      | (125)                           | (5.2%) <sup>(6)</sup>           | (224%) <sup>(4)</sup> |
| FEMSA Comercio  |   |        |                          |                                 |                                 |                       |
| Retail Division   | 15  | (10)   | (10)                     | 37                              | (250.0%) <sup>(7)</sup>         | (127%) <sup>(5)</sup> |
| Health Division   |   |        |                          |                                 |                                 |                       |
| Fuel Division   |   |        |                          |                                 |                                 |                       |
| CB Equity <sup>(3)</sup>  | 6,342   | 5,879  | 5,879                    | 5,244                           | 7.9%                            | 12.1%                 |

(1) Gross margin is calculated with reference to total revenues.

(2) As used herein, p.p. refers to a percentage point increase (or decrease) contrasted with a straight percentage increase (or decrease).

(3) CB Equity holds Heineken N.V. and Heineken Holding N.V. shares.

(4) Reflects the percentage increase between the loss of Ps. 125 million recorded in 2014 and the gain of Ps. 155 million recorded in 2015.

(5) Reflects the percentage decrease between the gain of Ps. 37 million recorded in 2014 and the loss of Ps. 10 million recorded in 2015.

(6) Reflects the percentage decrease between the gain of Ps. 155 million recorded in 2015 and the gain of Ps. 147 million recorded in 2016.

(7) Reflects the percentage increase between the loss of Ps. 10 million recorded in 2015 and the gain of Ps. 15 million recorded in 2016.

(8) The Health Division was aggregated into the Retail Division, based on the non-significant operation

(9) The Retail Division comparison was made based on 2015 results as reported last year.



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**Results from our Operations for the Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015**

**FEMSA Consolidated**

FEMSA's consolidated total revenues increased 28.2% to Ps. 399,507 million in 2016 compared to Ps. 311,589 million in 2015. Coca-Cola FEMSA's total revenues increased 16.6% to Ps. 177,718 million, supported by the positive translation effect originated by the appreciation of the Brazilian real and the Colombian peso, despite of the depreciation of the Venezuelan bolivar and the Argentine peso; all as compared to the Mexican peso. The Retail Division's revenues increased 14.4% to Ps. 137,139 million, driven by the opening of 1,164 net new OXXO stores combined with an average increase of 7.0% in same-store sales. The Health Division's revenues amounted to Ps. 43,411 million, an increase of 232.6% compared to 2015, driven by the integration of Socofar. The Fuel Division's revenues increased 54.6% to Ps. 28,616 million in 2016, compared to the ten-month period from March to December of 2015, driven by the addition of 75 total net new stations in the last twelve months, a 7.6% increase in same-store sales.

Consolidated gross profit increased 20.3% to Ps. 148,204 million in 2016 compared to Ps. 123,179 million in 2015. Gross margin decreased 240 basis points to 37.1% of total revenues compared to 2015, reflecting a contraction in Coca-Cola FEMSA's gross margin and the incorporation and growth of lower margin businesses in FEMSA Comercio.

Consolidated administrative expenses increased 25.8% to Ps. 14,730 million in 2016 compared to Ps. 11,705 million in 2015. As a percentage of total revenues, consolidated administrative expenses decreased 10 basis points, from 3.8% in 2015, compared to 3.7% in 2016.

Consolidated selling expenses increased 25.1% to Ps. 95,547 million in 2016 as compared to Ps. 76,375 million in 2015. As a percentage of total revenues, selling expenses decreased 60 basis points, from 24.5% in 2015 to 23.9% in 2016.

Some of our subsidiaries pay management fees to us in consideration for corporate services we provide to them. These fees are recorded as administrative expenses in the respective business segments. Our subsidiaries' payments of management fees are eliminated in consolidation and, therefore, have no effect on our consolidated operating expenses.

Other income mainly includes gains on sales of property, plant and equipment. During 2016, other income increased to Ps. 1,157 million from Ps. 423 million in 2015, reflecting recoveries from previous years and the write-off of certain contingencies.

Other expenses mainly includes contingencies associated with prior acquisitions or disposals, as well foreign exchange losses related to operating activities. During 2016, other expenses increased to Ps. 5,909 million from Ps. 2,741 million in 2015.

The term comprehensive financing result refers to the combined financial effects of net interest expenses, net financial foreign exchange gains or losses, and net gains or losses on the monetary position of hyperinflationary countries where FEMSA operates. Net financial foreign exchange gains or losses represent the impact of changes in foreign exchange rates on financial assets or liabilities denominated in currencies other than local currencies, and gains or losses resulting from derivative financial instruments. A financial foreign exchange loss arises if a liability is denominated in a foreign currency that appreciates relative to the local currency between the date the liability is incurred or the beginning of the period, whichever occurs first, and the date it is repaid or the end of the period, whichever occurs first, as the appreciation of the foreign currency results in an increase in the amount of local currency, which must be exchanged to repay the specified amount of the foreign currency liability.

Comprehensive financing result decreased to Ps. 4,619 million from Ps. 7,618 million in 2015, mostly driven by a positive result caused by inflationary effects in Coca-Cola FEMSA's net monetary positions in Venezuela combined with a foreign exchange gain related to the effect of FEMSA's U.S. Dollar-denominated cash position, these movements were enough to offset an interest expense increase of 24.0% to Ps. 9,646 million in 2016, compared to Ps. 7,777 million in 2015 resulting from new debt issuance at Coca-Cola FEMSA in connection to the Vonpar acquisition, and the EUR 1,000 million bond issued by FEMSA during the first half of 2016.

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Our accounting provision for income taxes in 2016 was Ps. 7,888 million, as compared to Ps. 7,932 million in 2015, resulting in an effective tax rate of 27.6% in 2016, as compared to 31.5% in 2015, slightly under our expected medium-term range of 30%. The lower effective tax rate registered during 2016 is mainly related to Coca-Cola FEMSA driven by certain tax efficiencies, lower effective tax rate in Colombia and ongoing efforts to reduce non-deductible items across our operations.

Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes, increased 7.6% to Ps. 6,507 million in 2016 compared with Ps. 6,045 million in 2015, mainly driven by an increase in FEMSA's 20% participation in Heineken's results.

Consolidated net income was Ps. 27,175 million in 2016 compared to Ps. 23,276 million in 2015, resulting from growth in FEMSA's income before income taxes and share of the profit of associates and joint ventures and an increase in FEMSA's 20% participation in Heineken's results. Controlling interest amounted to Ps. 21,140 million in 2016 compared to Ps. 17,683 million in 2015. Controlling interest in 2016 per FEMSA Unit was Ps. 5.91 (US\$ 2.87 per ADS).

**Coca-Cola FEMSA**

The comparability of Coca-Cola FEMSA's financial and operating performance in 2016 as compared to 2015 was affected by the following factors: (1) its acquisition and integration of Vonpar, (2) translation effects from fluctuations in exchange rates and (3) its results of operations in territories that are considered hyperinflationary economies (currently, its only operation that is considered a hyperinflationary economy is Venezuela). To translate the full-year 2016 results in Venezuela, Coca-Cola FEMSA used the DICOM exchange rate of 673.76 bolivars per U.S. dollar, as compared to 198.70 bolivars per U.S. dollar exchange rate used to translate Coca-Cola FEMSA's 2015 results. The average depreciations to the U.S. dollar of currencies used in Coca-Cola FEMSA's main operations during 2016, as compared to 2015, were: 17.7% for the Mexican peso, 4.8% for the Brazilian real, 11.4% for the Colombian peso and 59.5% for the Argentine peso. Consolidated results include full-year figures of Coca-Cola FEMSA's territories and one month figures of Vonpar.

**Total Revenues.** Coca-Cola FEMSA's consolidated total revenues increased by 16.6% to Ps.177,718 million in 2016, mainly as a result of the appreciation of the Brazilian real and the Colombian peso relative to the Mexican peso, which was partially offset by the negative translation effect resulting from the use of the DICOM exchange rate to translate the results of our Venezuelan operations and the depreciation of the Argentine peso relative to the Mexican peso. Excluding the effects of currency fluctuations, total revenues would have increased by a smaller amount, driven by the growth of the average price per unit case in most of Coca-Cola FEMSA's operations and volume growth in Mexico and Central America.

Total sales volume decreased by 3.0% to 3,334.0 million unit cases in 2016 as compared to 2015, as a result of the sales volume contraction in Brazil, Colombia, Argentina and Venezuela discussed below. Excluding the effects of Coca-Cola FEMSA's recent acquisition of Vonpar and the results of Coca-Cola FEMSA's operations in Venezuela, total sales volume would have decreased by 0.9% in 2016 as compared to 2015. Sales volume of Coca-Cola FEMSA's sparkling beverage portfolio decreased by 3.4% as compared to 2015. Excluding the effects of Coca-Cola FEMSA's recent acquisition of Vonpar and the results of its operations in Venezuela, sales volume of Coca-Cola FEMSA's sparkling beverage portfolio would have decreased by 1.0%, mainly as a result of a contraction in Brazil and Colombia, which was partially offset by the positive performance of the *Coca-Cola* brand in Mexico, Central America and Colombia, and Coca-Cola FEMSA's flavored sparkling beverage portfolio in Mexico and Central America. Sales volume of Coca-Cola FEMSA's still beverage portfolio decreased by 0.6% as compared to 2015. Excluding the effects of Coca-Cola FEMSA's recent acquisition of Vonpar and the results of Coca-Cola FEMSA's operations in Venezuela, sales volume of Coca-Cola FEMSA's still beverage portfolio would have grown 2.9% mainly driven by the positive performance of *ValleFrut* orangeade, *Del Valle* juice and the Santa Clara dairy business in Mexico and *Fuze tea* in Central America. Sales volume of bottled water, excluding bulk water, decreased by 1.2% as compared to 2015. Excluding the effects of Coca-Cola FEMSA's recent acquisition of Vonpar and the results of its operations in Venezuela, bottled water, excluding bulk water, would have decreased by 1.1%, driven by a contraction in Brazil and Colombia, which was partially offset by increased volume in Mexico and Argentina. Sales volume of bulk water decreased by 2.0% as compared to 2015. Excluding the effects of Coca-Cola FEMSA's recent acquisition of Vonpar and the results of Coca-Cola FEMSA's operations in Venezuela, sales volume of bulk water would have decreased by 1.9%, mainly driven by a sales volume contraction of the *Brisa* and *Crystal* brand products in Colombia and Brazil, respectively.

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Consolidated average price per unit case increased by 19.8% reaching Ps.50.75 in 2016, as compared to Ps.42.34 in 2015, mainly as a result of the appreciation of the Brazilian real and the Colombian peso relative to the Mexican peso, which was partially offset by the negative translation effect resulting from the use of the DICOM exchange rate to translate the results of Coca-Cola FEMSA's Venezuelan operations and the depreciation of the Argentine peso relative to the Mexican peso. Excluding the effects of currency fluctuations and Coca-Cola FEMSA's recent acquisition of Vonpar, and the results of Coca-Cola FEMSA's operations in Venezuela, average price per unit case would have grown 6.8% in 2016, driven by average price per unit case increases above inflation in local currency in most of Coca-Cola FEMSA's territories.

**Gross Profit.** Coca-Cola FEMSA's gross profit increased by 10.6% to Ps.79,662 million in 2016; however, its gross profit margin decreased by 250 basis points to reach 44.8% in 2016, mainly as a result of higher sugar prices, the depreciation of the average exchange rate of the Mexican peso, the Brazilian real, the Colombian peso and the Argentine peso relative to the U.S. dollar as applied to U.S. dollar-denominated raw material costs and an unfavorable currency hedging position in Brazil, which were partially offset by lower PET prices and Coca-Cola FEMSA's overall currency hedging strategy.

The components of cost of goods sold include raw materials (principally concentrate, sweeteners and packaging materials), depreciation costs attributable to Coca-Cola FEMSA's production facilities, wages and other labor costs associated with labor force employed at Coca-Cola FEMSA's production facilities and certain overhead costs. Concentrate prices are determined as a percentage of the retail price of our products in local currency, net of applicable taxes. Packaging materials, mainly PET and aluminum, and HFCS, used as a sweetener in some countries, are denominated in U.S. dollars.

**Administrative and Selling Expenses.** Coca-Cola FEMSA's administrative and selling expenses as a percentage of total revenues decreased by 50 basis points to 31.2% in 2016 as compared to 2015. Coca-Cola FEMSA's administrative and selling expenses in absolute terms increased by 14.9% as compared to 2015, mainly as a result of the appreciation of the Brazilian real and the Colombian peso relative to the Mexican peso, the inflationary effect of Coca-Cola FEMSA's operations in Venezuela, as well as the depreciation of the Mexican peso relative to the U.S. dollar. In local currency, administrative and selling expenses as a percentage of revenues decreased in Brazil and Colombia. In 2016, Coca-Cola FEMSA continued investing in marketing across its territories to support marketplace execution, increase cooler coverage and bolster returnable presentation base.

**Other Expenses Net.** Coca-Cola FEMSA recorded other expenses net of Ps.3,812 million in 2016 as compared to Ps. 1,748 million in 2015, mainly due to negative currency fluctuation effects in its operations in Venezuela.

Comprehensive financing result, defined above, in 2016 recorded an expense of Ps.6,080 million as compared to an expense of Ps.7,273 million in 2015. This decrease was mainly driven by a gain on the monetary position in Coca-Cola FEMSA's hyperinflationary operation in Venezuela due to an increase in the balance of accounts payable. This gain was partially offset by a foreign exchange loss resulting from the depreciation of the end-of-period exchange rate of the Mexican peso relative to the U.S. dollar as applied to Coca-Cola FEMSA's U.S. dollar-denominated debt.

**Income Taxes.** In 2016, income tax as a percentage of income before taxes was 27.2% as compared to 30.6% in 2015. This lower effective tax rate in 2016 was mainly due to certain tax efficiencies across Coca-Cola FEMSA's operations, a lower effective tax rate in Colombia and ongoing efforts to reduce non-deductible items across Coca-Cola FEMSA's operations.

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**Share of the Profit of Associates and Joint Ventures Accounted for Using the Equity Method, Net of Taxes.** In 2016, Coca-Cola FEMSA recorded a gain of Ps.147 million in the share of the profits of associates and joint ventures accounted for using the equity method, net of taxes, representing a decrease of 5.2% as compared to 2015, mainly due to a reduced equity method gain from Coca-Cola FEMSA's participation in associated companies.

**Net Income (Equity holders of the parent).** Coca-Cola FEMSA's net controlling interest income reached Ps.10,070 million in 2016 as compared to Ps.10,235 million in 2015. Basic earnings per share in 2016 were Ps.4.86 (Ps.48.58 per ADS) computed on the basis of the weighted average number of shares outstanding during the period of 2,072.9 million shares outstanding (each ADS represents 10 Series L shares).

### **FEMSA Comercio**

#### **Retail Division**

The Retail Division's total revenues increased 14.4% to Ps. 137,139 million in 2016 compared to Ps. 119,884 million in 2015, primarily as a result of the opening of 1,164 net new OXXO stores during 2016, together with an average increase in same-store sales of 7.0%. As of December 31, 2016, there were a total of 15,225 OXXO stores. As referenced above, OXXO same-store sales increased an average of 7.0% compared to 2015, driven by a 6.8% increase in average customer ticket while store traffic increased 0.2%.

Cost of goods sold increased 13.0% to Ps. 86,149 million in 2016, compared with Ps. 76,235 million in 2015. Gross margin increased 80 basis points to reach 37.2% of total revenues. This increase reflects healthy trends in our commercial income activity and the sustained growth of the services category, including income from financial services.

Administrative expenses increased 17.6% to Ps. 2,924 million in 2016, compared with Ps. 2,487 million in 2015; as a percentage of sales, such expenses reached 2.1%. Selling expenses increased 18.6% to Ps. 36,341 million in 2016 compared with Ps. 30,631 million in 2015; as a percentage of sales, such expenses reached 26.5%. The increase in expenses was driven by i) the electricity tariff pick-up seen during 2016, and ii) our initiative to improve the compensation structure of key store personnel.

#### **Health Division**

The Health Division's total revenues amounted to Ps. 43,411 million compared to Ps. 13,053 million in 2015 driven by the integration of Socofar and 220 net new store openings across territories. As of December 31, 2016, there were a total of 2,120 points of sale in Mexico, Chile and Colombia. The Health Division's same-store sales increased an average of 22.4% reflecting strong performance and positive foreign exchange translation effects from our South American operations.

Cost of goods sold amounted to Ps. 30,673 million in 2016, compared with Ps. 9,365 million in 2015. Gross margin increased 100 basis points to reach 29.3% of total revenues, reflecting higher structural gross margins at the Socofar operation.

Administrative expenses amounted to Ps. 1,769 million in 2016, compared with Ps. 414 million in 2015; as a percentage of sales, such expenses reached 4.1%. Selling expenses amounted to Ps. 9,365 million in 2016 compared with Ps. 2,682 million in 2015; as a percentage of sales, such expenses reached 21.5%. The increase in operating expenses was driven by the integration of Socofar and the organic expansion across Mexico.

#### **Fuel Division**

The Fuel Division's total revenues increased 54.6% to Ps. 28,616 million in 2016 compared to Ps. 18,510 million in the ten-month period from March to December 2015. Same-station sales increased an average of 7.6% compared to the comparable period in 2015, driven by a 6.9% increase in average volume and a slight increase of 0.7% in average price per liter.

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Cost of goods sold increased 54.3% to Ps. 26,368 million in 2016, compared with Ps. 17,090 million in 2015. Gross margin increased 20 basis points to reach 7.9% of total revenues. This increase reflects the benefit of price increases as well as higher operating leverage.

Administrative expenses increased 44.3% to Ps. 127 million in 2016, compared with Ps. 88 million in the comparable period of 2015; as a percentage of sales, they reached 0.4%. Selling expenses increased 65.9% to Ps. 1,865 million in 2016 compared with Ps. 1,124 million in the comparable period of 2015; as a percentage of sales, they reached 6.6%.

**Results from our Operations for the Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014**

**FEMSA Consolidated**

FEMSA's consolidated total revenues increased 18.3% to Ps. 311,589 million in 2015 compared to Ps. 263,449 million in 2014. Coca-Cola FEMSA's total revenues increased 3.4% to Ps. 152,360 million, driven by the local currency average price per unit case growth in all of their operations and volume growth in Mexico, Central America, Colombia and Argentina. The Retail Division's revenues increased 21.2% to Ps. 132,891 million, driven by the integration of Socofar and the opening of 1,208 net new OXXO stores combined with an average increase of 6.9% in same-store sales. The Fuel Division's revenues amounted to Ps. 18,510 million in 2015.

Consolidated gross profit increased 11.8% to Ps. 123,179 million in 2015 compared to Ps. 110,171 million in 2014. Gross margin decreased 230 basis points to 39.5% of consolidated total revenues compared to 2014, reflecting the creation of the Fuel Division, which has a lower margin than the rest of FEMSA's business units, and a margin contraction at the Retail Division driven by the integration of Socofar.

Consolidated administrative expenses increased 14.3% to Ps. 11,705 million in 2015 compared to Ps. 10,244 million in 2014, driven by higher expenses related to the integration of Socofar into the Retail Division. As a percentage of total revenues, consolidated administrative expenses decreased 10 basis points, from 3.9% in 2014 to 3.8% in 2015.

Consolidated selling expenses increased 10.7% to Ps. 76,375 million in 2015 as compared to Ps. 69,016 million in 2014, mainly driven by incremental expenses at the Retail Division, in particular the integration of Socofar into the Retail Division's business. As a percentage of total revenues, selling expenses decreased 160 basis points, from 26.1% in 2014 to 24.5% in 2015.

Some of our subsidiaries pay management fees to us in consideration for corporate services we provide to them. These fees are recorded as administrative expenses in the respective business segments. Our subsidiaries' payments of management fees are eliminated in consolidation and, therefore, have no effect on our consolidated operating expenses.

Other income mainly includes gains on sales of property, plant and equipment. During 2015, other income decreased to Ps. 423 million from Ps. 1,098 million in 2014, reflecting a difficult comparable base in 2014, when we registered the write-off of certain contingencies.

Other expenses mainly include disposal and impairment of long-lived assets, contingencies, as well as their subsequent interest and penalties, severance payments derived from restructuring programs and donations. During 2015, other expenses increased to Ps. 2,741 million from Ps. 1,277 million in 2014 driven by operative currency fluctuation effects at Coca-Cola FEMSA and, to a lesser extent, by incremental disposals of certain fixed assets at the Retail Division.

Comprehensive financing result, defined above, increased to Ps. 7,618 million from Ps. 6,988 million in 2014, driven by an interest expense of Ps. 7,777 million in 2015 compared to Ps. 6,701 million in 2014, resulting mainly from higher interest expenses at Coca-Cola FEMSA Brazil following the reset of terms of certain cross-currency swaps related to the acquisitions of Spaipa and Companhia Fluminense in 2013.

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Our accounting provision for income taxes in 2015 was Ps. 7,932 million, as compared to Ps. 6,253 million in 2014, resulting in an effective tax rate of 31.5% in 2015, as compared to 26.3% in 2014, in line with our expected medium-term range of low 30 s. The lower effective tax rate registered during 2014 is mainly related to a one-time benefit resulting from the settlement of certain contingent tax liabilities under the tax amnesty program offered by the Brazilian tax authorities, which was registered during 2014.

Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes, increased 17.6% to Ps. 6,045 million in 2015 compared with Ps. 5,139 million in 2014, mainly driven by an increase in FEMSA s 20% participation in Heineken s results.

Consolidated net income was Ps. 23,276 million in 2015 compared to Ps. 22,630 million in 2014, mainly as a result of growth in FEMSA s income before income taxes combined with an increase in FEMSA s 20% participation in Heineken s results, which more than compensated for higher interest expenses. Controlling interest amounted to Ps. 17,683 million in 2015 compared to Ps. 16,701 million in 2014. Controlling interest in 2015 per FEMSA BD Unit was Ps. 4.94 (US\$ 2.87 per ADS).

**Coca-Cola FEMSA**

The comparability of Coca-Cola FEMSA s financial and operating performance in 2015 as compared to 2014 was affected by the following factors: (1) translation effects from fluctuations in exchange rates and (2) Coca-Cola FEMSA s results of operations in territories that are considered hyperinflationary economies (currently, Coca-Cola FEMSA s only operation that is considered a hyperinflationary economy is Venezuela). To translate the full-year 2015 results of Venezuela, we used the SIMADI exchange rate of 198.70 bolivars per U.S. dollar, as compared to 49.99 bolivars per U.S. dollar used to translate our 2014 results. In addition, the average depreciations to the U.S. dollar of currencies used in Coca-Cola FEMSA s main operations during 2015, as compared to 2014, were: 41.6% for the Brazilian real, 37.0% for the Colombian peso, 19.2% for the Mexican peso and 14.1% for the Argentine peso.

**Total Revenues.** Coca-Cola FEMSA s consolidated total revenues increased 3.4% to Ps.152,360 million in 2015 despite the negative translation effect resulting from using the SIMADI exchange rate to translate the results of Coca-Cola FEMSA s Venezuelan operations and the depreciation of the Brazilian real, the Colombian peso, the Mexican peso and the Argentine peso. Excluding the effect of currency fluctuations, total revenues would have increased by a larger amount, driven by the growth of the average price per unit case in all of Coca-Cola FEMSA s operations and volume growth in Mexico, Central America, Colombia and Argentina.

Total sales volume increased 0.5% to 3,435.6 million unit cases in 2015, as compared to 2014. Excluding the results of Coca-Cola FEMSA s Venezuelan operations, total volume would have grown 0.7% in 2015, as compared to 2014. Coca-Cola FEMSA s sparkling beverage portfolio grew 0.5% as compared to 2014. Excluding the effect of Coca-Cola FEMSA s Venezuelan operations, the sparkling beverage portfolio would have grown 0.7% as a result of positive performance of the *Coca-Cola* brand in Mexico, Colombia and Central America, and Coca-Cola FEMSA s flavored sparkling beverage portfolio in Mexico, Colombia, Argentina and Central America. The still beverage category grew 4.9% as compared to 2014. Excluding the effect of Coca-Cola FEMSA s Venezuelan operations, the still beverage category would have grown 6.5% driven by the positive performance of Jugos del Valle juice in Colombia, Mexico and Central America; *ValleFrut* orangeade in Mexico and Brazil; the *Powerade* brand across most of Coca-Cola FEMSA s territories and the Santa Clara dairy business in Mexico. Bottled water, excluding bulk water, grew 2.3% as compared to 2014. Excluding the effect of Coca-Cola FEMSA s Venezuelan operations, bottled water, excluding bulk water, would have grown 1.8%, driven by growth in Colombia, Argentina, Brazil and Central America. Bulk water decreased 2.9% as compared to 2014, mainly driven by a contraction of the *Ciel* brand in Mexico.

Consolidated average price per unit case grew 3.5% reaching Ps.42.34 in 2015, as compared to Ps.40.92 in 2014, despite the negative translation effect resulting from using the SIMADI exchange rate to translate the results of Coca-Cola FEMSA s Venezuelan operations and the depreciation of the Brazilian real, the Colombian peso and the Argentine peso. Excluding the effect of currency fluctuations and Coca-Cola FEMSA s Venezuelan operations, average price per unit case would have grown 8.8% in 2015, driven by average price per unit case increases in local currency in each of our operations.

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**Gross Profit.** Coca-Cola FEMSA's gross profit increased 5.3% to Ps.72,030 million in 2015, with a gross profit margin expansion of 90 basis points. In local currency, the benefit of lower sweetener and PET prices, in combination with Coca-Cola FEMSA's currency hedging strategy, was partially offset by the depreciation of the average exchange rate of the Brazilian real, the Colombian peso, the Mexican peso and the Argentine peso as applied to U.S. dollar-denominated raw material costs.

The components of cost of goods sold include raw materials (principally concentrate, sweeteners and packaging materials), depreciation costs attributable to Coca-Cola FEMSA's production facilities, wages and other labor costs at Coca-Cola FEMSA's production facilities and certain overhead costs. Concentrate prices are determined as a percentage of the retail price of Coca-Cola FEMSA's products in the local currency, net of applicable taxes. Packaging materials, mainly PET and aluminum, and HFCS, used as a sweetener in some countries, are denominated in U.S. dollars.

**Administrative and Selling Expenses.** Coca-Cola FEMSA's administrative and selling expenses as a percentage of total revenues decreased 10 basis points to 31.7% in 2015 as compared to 2014. Coca-Cola FEMSA's administrative and selling expenses in absolute terms increased 3.1% as compared to 2014, mainly as a result of the depreciation of the Mexican peso relative to the U.S. dollar. In local currency, operating expenses as a percentage of revenues decreased in Mexico, Venezuela and Argentina. In 2015, Coca-Cola FEMSA continued investing across its territories to support marketplace execution, increase cooler coverage and bolster returnable presentation base.

**Other Expenses Net.** Coca-Cola FEMSA recorded other expenses net of Ps.1,748 million in 2015, mainly due to certain restructuring charges and the negative operating currency fluctuation effects across its territories.

Comprehensive financing result, as defined above, in 2015 recorded an expense of Ps.7,273 million as compared to an expense of Ps.6,422 million in 2014. This increase was mainly driven by a foreign exchange loss as a result of the depreciation of the end-of-period exchange rate of the Mexican peso during the year, as applied to Coca-Cola FEMSA's U.S. dollar-denominated net debt position.

**Income Taxes.** In 2015, income tax as a percentage of income before taxes was 30.6% as compared to 26.0% in 2014. The lower effective tax rate registered in 2014 was mainly related to a one-time benefit resulting from the settlement of certain contingent tax liabilities under the tax amnesty program offered by the Brazilian tax authorities, which was not repeated in 2015.

**Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes.** In 2015, Coca-Cola FEMSA reported a gain of Ps.155 million in the share of the profits of associates and joint ventures line, mainly due to an equity method gain from its participation in associated companies and in KOF Philippines.

**Net Income (Equity holders of the parent).** Coca-Cola FEMSA's net controlling interest income reached Ps.10,235 million in 2015 as compared to Ps.10,542 million in 2014. Earnings per share in 2015 were Ps.4.94 (Ps.49.37 per ADS) computed on the basis of the weighted average number of shares outstanding during the period of 2,072.9 million shares outstanding (each ADS represents 10 Series L shares).

**FEMSA Comercio**

*Retail Division*

For comparison purposes the Retail Division is reported as disclosed in 2015. Accordingly, the below figures include the Health Division's results in 2015 and 2014.

The Retail Division's total revenues increased 21.2% to Ps. 132,891 million in 2015 compared to Ps. 109,624 million in 2014, primarily as a result of the opening of 1,208 net new OXXO stores during 2015, together with an average increase in same-store sales of 6.9%, as well as the additional revenues from the acquisitions of Socofar and Farmacias Farmacon drugstores in Chile and Mexico, respectively. As of December 31, 2015, there were a total of 14,061 OXXO stores. As referenced above, the Retail Division's same-store sales increased an average of 6.9% compared to 2014, driven by a 5.1% increase in average customer ticket while store traffic increased 1.7%.

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Cost of goods sold increased 21.9% to Ps. 85,600 million in 2015, compared with Ps. 70,238 million in 2014. Gross margin contracted 30 basis points to reach 35.6% of total revenues. This decrease was mainly driven by the integration of the Farmacias Farmacon and Socofar drugstores, both of which have lower gross margins than the OXXO operations.

Administrative expenses increased 40.5% to Ps. 2,868 million in 2015, compared with Ps. 2,042 million in 2014, reaching 2.2% of sales. Selling expenses increased 16.9% to Ps. 33,305 million in 2015 compared with Ps. 28,492 million in 2014. The increase in operating expenses was driven by (i) expenses related to the incorporation of the Socofar and Farmacias Farmacon drugstore operations, (ii) the strong growth in openings of new stores across formats and (iii) the strengthening of FEMSA Comercio's business and organizational structure in preparation for the growth of new operations, particularly drugstores.

### *Health Division*

As indicated above, the results of the Health Division were included in the Retail Division in 2015 and 2014 for comparison purposes.

The operations that comprise the Health Division segment were separated in 2016. For 2015, FEMSA Comercio's results were restated to reflect the aforementioned separation. As such, no results of operation are available for this segment for periods prior to 2015.

The Health Division's total revenues amounted to Ps. 13,053 million in 2015. Cost of goods sold reached Ps. 9,365 million in 2015 and administrative expenses amounted to Ps. 414 million in 2015. Selling expenses reached Ps. 2,682 million in 2015.

### *Fuel Division*

The operations that comprise the Fuel Division were integrated in 2015. As such, no results of operation are available for this segment for periods prior to 2015.

The Fuel Division's total revenues amounted to Ps. 18,510 million in 2015. Cost of goods sold reached Ps. 17,090 million in 2015 and administrative expenses amounted to Ps. 88 million in 2015. Selling expenses reached Ps. 1,124 million in 2015.

## **Liquidity and Capital Resources**

### **Liquidity**

Each of our sub-holding companies generally finances its operational and capital requirements on an independent basis. As of December 31, 2016, 64% of our outstanding consolidated total indebtedness was at the level of our sub-holding companies. This structure is attributable, in part, to the inclusion of third parties in the capital structure of Coca-Cola FEMSA. Anticipating liquidity needs for general corporate purposes, in May 2013 we issued US\$ 300 million aggregate principal amount of 2.875% Senior Notes due 2023 and US\$ 700 million aggregate principal amount of 4.375% Senior Notes due 2043. In March 2016, we issued EUR 1,000 million aggregate principal amount of 1.750% fixed rate Senior Notes due 2023 with a total yield of 1.824%.

In May 2013, Coca-Cola FEMSA issued Ps. 7,500 million aggregate principal amount of 10-year fixed rate Mexican peso-denominated bonds (*certificados bursatiles*) bearing a 5.46% coupon and in April 2011, Coca-Cola FEMSA issued Ps. 2,500 million of 10-year fixed rate *certificados bursatiles* bearing an 8.27% coupon.

In addition, in November 2013 and January 2014, Coca-Cola FEMSA issued US\$ 1.0 billion aggregate principal amount of 2.375% Senior Notes due 2018, US\$ 750 million aggregate principal amount of 3.875% Senior Notes due 2023 and US\$ 400 million aggregate principal amount of 5.250% Senior Notes due 2043. Also in January 2014, Coca-Cola FEMSA issued US\$ 150 million aggregate principal amount of 3.875% Senior Notes due 2023 and US\$ 200 million in aggregate principal amount of 5.250% Senior Notes due 2043. In February 2010, Coca-Cola FEMSA issued US\$ 500 million aggregate amount of 4.625% Senior Notes due 2020. In December 2016, as part of the purchase price paid for our acquisition of Vonpar, Coca-Cola FEMSA issued and delivered a three-year promissory note to the sellers for a total amount of 1,090 million Brazilian reais (approximately Ps.7,022 million as of December 31, 2016). The promissory note bears interest at an annual rate of 0.375%, and is denominated and payable in Brazilian reais. The promissory note 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.





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We may decide to incur additional indebtedness at our holding company in the future to finance the operations and capital requirements of our subsidiaries or significant acquisitions, investments or capital expenditures. As a holding company, we depend on dividends and other distributions from our subsidiaries to service our indebtedness and to finance our operations and capital requirements.

We continuously evaluate 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.

Our principal source of liquidity has generally been cash generated from our operations. We have traditionally been able to rely on cash generated from operations because a significant majority of the sales of Coca-Cola FEMSA and FEMSA Comercio are on a cash or short-term credit basis. OXXO stores are able to finance a significant portion of their initial and ongoing inventories with supplier credit. Our principal use of cash has generally been for capital expenditure programs, debt repayment and dividend payments. In our opinion, our working capital is sufficient for our present requirements.

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

The following is a summary of the principal sources and uses of cash for the years ended December 31, 2016, 2015 and 2014, from our consolidated statement of cash flows:

**Principal Sources and Uses of Cash****Years ended December 31, 2016, 2015 and 2014**

(in millions of Mexican pesos)

|   | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|---|-------------|-------------|-------------|
| Net cash flows provided by operating activities           | Ps. 50,131  | Ps. 36,742  | Ps. 37,364  |
| Net cash flows used in investing activities               | (38,645)    | (28,359)    | (15,608)    |
| Net cash flows provided (used in) by financing activities | 1,297       | (13,741)    | (9,288)     |
| Dividends paid  | (12,045)    | (10,701)    | (3,152)     |

**Principal Sources and Uses of Cash for the Year ended December 31, 2016 Compared to the Year Ended December 31, 2015**

Our net cash generated by operating activities was Ps. 50,131 million for the year ended December 31, 2016 compared to Ps. 36,742 million generated by operating activities for the year ended December 31, 2015, an increase of Ps. 13,389 million. This increase was the result of:

- i. An improvement of Ps. 2,490 million due to collection of trade receivables compared to last year, which was partially offset by greater stock inventory of Ps. 606 million and Ps. 311 due to a lower cash flow hedging effect of our commodities, compared to last year;

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ii. An increase in the amount of Ps. 8,538 million due to lower suppliers payments compared to last year; and

iii. An increase in cash provided by other current financial liabilities in the amount of Ps. 3,212 million.

Our net cash used in investing activities was Ps. 38,645 million for the year ended December 31, 2016 compared to Ps. 28,359 million for the year ended December 31, 2015, an increase of Ps. 10,286 million. This was primarily the result of:

i. An increase in acquisition-related costs in the amount of Ps. 6,308 million, given by Coca-Cola FEMSA and our other business acquisitions,

ii. An increase in acquisition cost of property, plant and equipment and intangible assets of Ps. 1,598 and 1,338, respectively; due to the expansion plan of our businesses compared to last year.

Our net cash generated by financing activities was Ps. 1,297 million for the year ended December 31, 2016 compared to Ps. 13,741 million used in financing activities for the year ended December 31, 2015, an increase of Ps. 15,038 million. This increase was primarily due to:

i. A change of Ps. 10,062 which increased our cash flow due to lower payments of bank loans in 2016 of Ps. 5,458 million as compared to Ps. 15,520 million in 2015;

ii. A change of Ps. 18,207 million which increased our cash flow mainly due to the senior unsecured notes in the amount of EUR 1,000 issued in March 2016; and

iii. All these changes were partially offset by a net increase by derivative financial instruments of Ps. 11,816 million due to the acquisition of new cross-currency swaps and an increase in dividend payments of Ps. 1,344 compared to last year.

**Principal Sources and Uses of Cash for the Year ended December 31, 2015 Compared to the Year Ended December 31, 2014**

Our net cash generated by operating activities was Ps. 36,742 million for the year ended December 31, 2015 compared to Ps. 37,364 million generated by operating activities for the year ended December 31, 2014, a decrease of Ps. 622 million. This decrease was the result of:

i. A decrease in the cash provided by the changes in other current financial assets of Ps. 1,418 million due to restricted cash payments compared to last year, which was partially offset by a net increase in cash provided by accounts receivable and other current assets of Ps. 583 million compared to last year;

ii. An increase in the amount of cash provided because of the changes in other long-term liabilities of Ps. 3,130 million due to a decrease in contingencies payments over the prior year, which was offset by a decrease in cash provided of Ps. 3,208 because of the changes in inventories; and

iii. A decrease in cash provided by changes in suppliers and other accounts payable and other current financial liabilities of Ps. 2,717 million, besides there was a decrease in cash provided in income taxes paid of Ps. 2,833 million due to the increase of taxable income over the prior year, which were offset by an increase of Ps. 5,611 million in our cash flow from operating activities before changes in operating accounts due to our increased sales on a cash basis.



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Our net cash used in investing activities was Ps. 28,359 million for the year ended December 31, 2015 compared to Ps. 15,608 million for the year ended December 31, 2014, an increase of Ps. 12,751 million. This was primarily the result of:

- i. An increase in acquisition-related costs in the amount of Ps. 12,711 million, given by FEMSA Comercio and our other business acquisitions.

Our net cash used in financing activities was Ps. 13,741 million for the year ended December 31, 2015 compared to Ps. 9,288 million generated by financing activities for the year ended December 31, 2014, an increase of Ps. 4,453 million. This increase was primarily due to:

- i. Higher payments of bank loans in 2015 of Ps. 15,520 million as compared to Ps. 5,721 million in 2014, offset by proceeds from bank borrowings of Ps. 8,442 million in 2015 compared to Ps. 5,354 million in 2014;
- ii. Higher dividend payments of Ps. 10,701 million compared to Ps. 3,152 million in 2014, finally; and
- iii. All these payments were partially offset by a net increase in cash provided by derivative financial instruments of Ps. 10,612 million due to the liquidation of cross-currency swaps.

**Consolidated Total Indebtedness**

Our consolidated total indebtedness as of December 31, 2016, was Ps. 139,248 million compared to Ps. 91,864 million in 2015 and Ps. 84,488 million as of December 31, 2014. Short-term debt (including maturities of long-term debt) and long-term debt were Ps. 7,281 million and Ps. 131,967 million, respectively, as of December 31, 2016, as compared to Ps. 5,895 million and Ps. 85,969 million, respectively, as of December 31, 2015, and Ps. 1,553 million and Ps. 82,935 million, respectively, as of December 31, 2014. Cash and cash equivalents were Ps. 43,637 million as of December 31, 2016, as compared to Ps. 29,396 million as of December 31, 2015, and Ps. 35,497 million as of December 31, 2014.

**Off-Balance Sheet Arrangements**

We do not have any material off-balance sheet arrangements.

**Contractual Obligations**

The table below sets forth our contractual obligations as of December 31, 2016.

|                                | Maturity            |                      |             |                         | Total      |
|--------------------------------|---------------------|----------------------|-------------|-------------------------|------------|
|                                | Less than<br>1 year | 1 - 3 years          | 3 - 5 years | In excess of<br>5 years |            |
| (in millions of Mexican pesos) |                     |                      |             |                         |            |
| <b>Long-Term Debt</b>          |                     |                      |             |                         |            |
| Mexican pesos                  | Ps. 3,245           | Ps.                  | Ps. 2,497   | Ps. 7,494               | Ps. 13,236 |
| Brazilian reais                | 775                 | 8,232 <sup>(5)</sup> | 487         | 160                     | 9,654      |
| Colombian pesos                | 793                 | 1,171                |             |                         | 1,964      |
| U.S. dollars                   |                     | 20,625               | 14,515      | 51,026                  | 86,166     |
| Argentine pesos                | 40                  |                      |             |                         | 40         |
| Euro                           |                     |                      |             | 21,627                  | 21,627     |
| Chilean pesos                  | 484                 | 1,157                | 1,777       | 1,097                   | 4,514      |
| <b>Capital Leases</b>          |                     |                      |             |                         |            |
| U.S. dollars                   | 7                   | 11                   | 2           |                         | 20         |

|               |    |    |    |     |
|---------------|----|----|----|-----|
| Chilean pesos | 25 | 48 | 41 | 114 |
|---------------|----|----|----|-----|

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|  | Maturity            |             |             |                         | Total  |
|--|---------------------|-------------|-------------|-------------------------|--------|
|  | Less than<br>1 year | 1 - 3 years | 3 - 5 years | In excess of<br>5 years |        |
| (in millions of Mexican pesos)   |                     |             |             |                         |        |
| <b>Interest payments<sup>(1)</sup></b>   |                     |             |             |                         |        |
| Mexican pesos  | 738                 | 1,231       | 1,079       | 558                     | 3,606  |
| Brazilian reais  | 139                 | 268         | 189         | 206                     | 802    |
| Colombian pesos  | 164                 | 102         |             |                         | 266    |
| U.S. dollars   | 3,215               | 5,889       | 4,493       | 29,062                  | 42,659 |
| Argentine pesos  | 52                  |             |             |                         | 52     |
| Chilean pesos  | 180                 | 332         | 264         | 100                     | 876    |
| Euro   | 378                 | 757         | 757         | 462                     | 2,354  |
| <b>Interest Rate Swaps and Cross-Currency Swaps<sup>(2)</sup></b>  |                     |             |             |                         |        |
| Mexican pesos  | 3,550               | 6,298       | 3,842       | 17,611                  | 31,301 |
| Brazilian reais  | 6,134               | 7,056       | 1,724       | 50                      | 14,964 |
| Colombian pesos  | 64                  | 87          |             |                         | 151    |
| U.S. dollars   | 574                 | (70)        | 682         | 16,110                  | 17,296 |
| Argentine pesos  | 53                  |             |             |                         | 53     |
| Chilean pesos  | 299                 | 568         | 448         | 164                     | 1,479  |
| Euro   | 380                 | 760         | 760         | 464                     | 2,364  |
| <b>Operating leases</b>  |                     |             |             |                         |        |
| Mexican pesos  | 4,130               | 9,138       | 8,362       | 28,560                  | 50,190 |
| U.S. dollars   | 363                 | 725         | 528         | 468                     | 2,084  |
| Others   | 1,424               | 2,307       | 1,802       | 2,887                   | 8,420  |
| <b>Commodity price contracts</b>   |                     |             |             |                         |        |
| Sugar <sup>(3)</sup>   | 572                 |             |             |                         | 572    |
| Aluminum <sup>(3)</sup>  | 74                  |             |             |                         | 74     |
| <b>Expected benefits to be paid for pension and retirement plans, seniority premiums, post-retirement medical services and post-employment</b> |                     |             |             |                         |        |
|  | 534                 | 783         | 947         | 2,397                   | 4,661  |
| <b>Other long-term liabilities<sup>(4)</sup></b>   |                     |             |             |                         |        |
|  |                     |             |             | 25,947                  | 25,947 |

- (1) Interest was calculated using long-term debt as of and interest rate amounts in effect on December 31, 2016 without considering interest rate swap agreements. The debt and applicable interest rates in effect are shown in Note 18 to our audited consolidated financial statements. Liabilities denominated in U.S. dollars were translated to Mexican pesos at an exchange rate of Ps. 20.6170 per US\$ 1.00, the exchange rate quoted to us by *Banco de México* for the settlement of obligations in foreign currencies on December 31, 2016.
- (2) Reflects the amount of future payments that we would be required to make. The amounts were calculated by applying the rates giving effect to interest rate swaps and cross-currency swaps applied to long-term debt as of December 31, 2016, and the market value of the unhedged cross-currency swaps (the amount of debt used in the calculation of the interest was obtained by converting only the units of investment debt for the related cross-currency swap, and it also includes the effect of related interest rate swaps).
- (3) Reflects the notional amount of the futures and forward contracts used to hedge sugar and aluminum cost with a fair value liability of Ps. 375 million; see Note 20.6 to our audited consolidated financial statements.
- (4) Other long-term liabilities include provisions and others, but not deferred taxes. Other long-term liabilities additionally reflect those liabilities whose maturity date is undefined and depends on a series of circumstances out of our control, therefore these liabilities have been considered to have a maturity of more than five years.
- (5) A portion of our debt denominated in Brazilian reais consists of a promissory note for 1,090 million Brazilian reais (approximately Ps.7,022 million). This promissory note is 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.

As of December 31, 2016, Ps. 7,281 million of our total consolidated indebtedness was short-term debt (including maturities of long-term debt).

As of December 31, 2016, our consolidated average cost of borrowing, after giving effect to the cross-currency and interest rate swaps, was approximately 8.6% (the total amount of debt used in the calculation of this percentage was obtained by converting only the units of investment debt for the related cross-currency swap, and it also includes the effect of related interest rate swaps). As of December 31, 2015, our consolidated average cost of borrowing, after giving effect to the cross-currency swaps, was 7.5%. As of December 31, 2016, after giving effect to cross-currency swaps, approximately 36.4% of our total consolidated indebtedness was denominated and payable in Mexican pesos, 1.6% in U.S. dollars, 2.0% in Colombian pesos, 0.5% in Argentine pesos, 39.3% in Brazilian reais, 3.8% in Chilean pesos and the remaining 16.4% in Euros.





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**Overview of Debt Instruments**

The following table shows the allocations of total debt of our company as of December 31, 2016:

|                                     | Total Debt Profile of the Company |  |                |             | Total Debt         |
|-------------------------------------|-----------------------------------|--|----------------|-------------|--------------------|
|                                     | FEMSA and Others                  | Coca-Cola FEMSA (in millions of Mexican pesos) | FEMSA Comercio |             |                    |
| <b>Short-term Debt</b>              |                                   |  |                |             |                    |
| <i>U.S. dollars:</i>                |                                   |  |                |             |                    |
| Bank loans                          |                                   | 206  |                |             | 206                |
| <i>Argentine pesos:</i>             |                                   |  |                |             |                    |
| Notes Payable                       | Ps.                               | Ps. 644  | Ps.            | Ps.         | 644                |
| <i>Colombian pesos:</i>             |                                   |  |                |             |                    |
| Bank loans                          |                                   | 723  | 1              |             | 724                |
| <i>Chilean pesos:</i>               |                                   |  |                |             |                    |
| Bank loans                          |                                   |  | 338            |             | 338                |
| <b>Long-term Debt<sup>(1)</sup></b> |                                   |  |                |             |                    |
| <i>Mexican pesos:</i>               |                                   |  |                |             |                    |
| Units of Investment (UDIs)          |                                   | 3,245  |                |             | 3,245              |
| Domestic Senior notes               |                                   |  | 9,991          |             | 9,991              |
| <i>Euros:</i>                       |                                   |  |                |             |                    |
| Senior unsecured notes              |                                   | 21,627   |                |             | 21,627             |
| <i>U.S. dollars:</i>                |                                   |  |                |             |                    |
| Senior Notes                        |                                   | 20,246   | 65,921         | 21          | 86,188             |
| <i>Brazilian reais:</i>             |                                   |  |                |             |                    |
| Bank loans                          |                                   | 234  | 2,372          |             | 2,606              |
| Note payable                        |                                   |  | 7,048          |             | 7,048              |
| <i>Colombian pesos:</i>             |                                   |  |                |             |                    |
| Bank loans                          |                                   |  | 1,964          |             | 1,964              |
| <i>Argentine pesos:</i>             |                                   |  |                |             |                    |
| Bank loans                          |                                   |  | 40             |             | 40                 |
| <i>Chilean pesos:</i>               |                                   |  |                |             |                    |
| Bank loans                          |                                   | 4,350  |                | 163         | 4,513              |
| Capital leases                      |                                   |  |                | 114         | 114                |
| <b>Total Debt</b>                   | <b>Ps. 49,702</b>                 | <b>Ps. 88,909</b>                              | <b>Ps. 637</b> |             | <b>Ps. 139,248</b> |
| <b>Average Cost<sup>(2)</sup></b>   |                                   |  |                |             |                    |
| Mexican pesos                       |                                   | 6.8%   | 7.6%           |             | 7.4%               |
| U.S. dollars                        |                                   |  | 5.2%           |             | 5.2%               |
| Euro                                |                                   | 1.8%   |                |             | 1.8%               |
| Brazilian reais                     |                                   | 4.8%   | 12.7%          |             | 12.6%              |
| Argentine pesos                     |                                   |  | 31.7%          |             | 31.7%              |
| Colombian pesos                     |                                   |  | 9.5%           | 2.1%        | 9.5%               |
| Chilean pesos                       |                                   | 6.4%   |                | 4.9%        | 6.4%               |
| <b>Total</b>                        |                                   | <b>4.1%</b>                                    | <b>10.7%</b>   | <b>4.9%</b> | <b>8.6%</b>        |

(1) Includes the Ps. 5,369 million current portion of long-term debt.

(2) Includes the effect of cross currency and interest rate swaps (the total amount of the debt used in the calculation of this percentage considers converting only the units of investments debt for the related cross-currency swap, and it also includes the effect of related interest rate swaps). Average cost is determined based on interest rates as of December 31, 2016.

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**Restrictions Imposed by Debt Instruments**

Generally, the covenants contained in the credit agreements and other instruments governing indebtedness entered into by us or our sub-holding companies include limitations on the incurrence of any additional debt based on debt service coverage ratios or leverage tests. These credit agreements also generally include restrictive covenants applicable to the Company, our sub-holding companies and their subsidiaries.

We and Coca-Cola FEMSA are in compliance with all of our covenants. A significant and prolonged deterioration in our consolidated results could cause us to cease to be in compliance under certain indebtedness in the future. We can provide no assurances that we will be able to incur indebtedness or to refinance existing indebtedness on similar terms in the future.

**Summary of Debt**

The following is a summary of our indebtedness by sub-holding company and for FEMSA as of December 31, 2016:

*Coca-Cola FEMSA*

Coca-Cola FEMSA's total indebtedness was Ps. 88,909 million as of December 31, 2016, as compared to Ps. 66,730 million as of December 31, 2015. Short-term debt and long-term debt were Ps. 3,052 million and Ps. 85,857 million, respectively, as of December 31, 2016, as compared to Ps. 3,470 million and Ps. 63,260 million, respectively, as of December 31, 2015. Total debt increased Ps. 22,179 million in 2016, compared to year end 2015. As of December 31, 2016, Coca-Cola FEMSA's cash and cash equivalents were Ps. 10,476 million, as compared to Ps. 15,989 million as of December 31, 2015. Coca-Cola FEMSA had cash outflows in 2016 mainly resulting from dividend payments and the payment in cash for Coca-Cola FEMSA's acquisition of Vonpar. As of December 31, 2016, Coca-Cola FEMSA's cash and cash equivalents were comprised of 28.5% U.S. dollars, 14.3% Mexican pesos, 30.3% Brazilian reais, 15.1% Venezuelan bolivars, 6.3% Argentine pesos, 3.2% Colombian pesos, 1.2% Costa Rican colones and 1.1% other legal currencies. We believe that these funds, in addition to the cash generated by Coca-Cola FEMSA's operations, are sufficient to meet Coca-Cola FEMSA's operating requirements.

Any further changes in the Venezuelan exchange control regime, and future currency devaluations or the imposition of exchange controls in any of the countries where Coca-Cola FEMSA has operations could have an adverse effect on Coca-Cola FEMSA's financial position and liquidity.

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

Coca-Cola FEMSA continuously evaluates opportunities to pursue acquisitions or engage in strategic transactions. Coca-Cola FEMSA would expect to finance any significant future transactions with a combination of any of cash, long-term indebtedness and the issuance of shares of its company.

**Table of Contents***FEMSA Comercio*

As of December 31, 2016, the Retail Division had total outstanding debt of Ps. 637 million. Short-term debt (including the current portion of long-term debt) and long-term debt were Ps. 339 million and Ps. 298 million, respectively. As of December 31, 2016, cash and cash equivalents were Ps. 6,977 million.

*FEMSA and other businesses*

As of December 31, 2016, FEMSA and other businesses had total outstanding debt of Ps. 49,702 million, which is composed of Ps. 3,245 million of *unidades de inversión* (inflation indexed units, or UDIs), which mature in November 2017, Ps. 4,584 million of bank debt (of which Ps. 234 million is held by our logistics services subsidiary and Ps. 4,350 million is held by our holding company) in other legal currencies, Ps. 6,117 million of Senior Notes due 2023, Ps. 14,128 million of Senior Notes due 2043 and Ps. 21,627 million of Senior Unsecured Notes due 2023 that we issued in March 2016. **See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Liquidity.** FEMSA and other businesses' average cost of debt, after giving effect to interest rate swaps and cross-currency swaps, as of December 31, 2016, was 6.8% in Mexican pesos (the amount of debt used in the calculation of this percentage was obtained by converting only the units of investments debt for the related cross-currency swap, and it also includes the effect of related interest rate swaps).

**Contingencies**

We have various loss contingencies, for which reserves have been recorded in those cases where we believe an unfavorable resolution is probable and can be reasonably quantified. **See Item 8. Financial Information Legal Proceedings.** Any amounts required to be paid in connection with these loss contingencies would be required to be paid from available cash.

The following table presents the nature and amount of loss contingencies recorded as of December 31, 2016:

|                                 | <b>Loss Contingencies</b>             |        |
|---------------------------------|---------------------------------------|--------|
|                                 | <b>As of December 31, 2016</b>        |        |
|                                 | <b>(in millions of Mexican pesos)</b> |        |
| Taxes, primarily indirect taxes | Ps.                                   | 11,065 |
| Legal                           |                                       | 2,785  |
| Labor                           |                                       | 2,578  |
| Total                           | Ps.                                   | 16,428 |

As is customary in Brazil, we have been asked by the tax authorities to collateralize tax contingencies currently in litigation amounting to Ps. 8,093 million, Ps. 3,569 million and Ps. 3,026 million as of December 31, 2016, 2015 and 2014, respectively, by pledging fixed assets or providing bank guarantees.

We have other contingencies that, based on a legal assessment of their risk of loss, have been classified by our legal counsel as more than remote but less than probable. These contingencies have a financial impact that is disclosed as loss contingencies in the notes of the audited consolidated financial statements. These contingencies, or our assessment of them, may change in the future, and we may record reserves or be required to pay amounts in respect of these contingencies. As of December 31, 2016, the aggregate amount of such contingencies for which we had not recorded a reserve was Ps. 53,045 million.

**Capital Expenditures**

For the past five years, we have had significant capital expenditure programs, which for the most part were financed with cash from operations. Capital expenditures reached Ps. 22,155 million in 2016 compared to Ps. 18,885 million in 2015, an increase of 17%. This was driven by additional investments at FEMSA Comercio, mainly related to the opening of new stores, drugstores, and retail service stations. The principal components of our capital expenditures have been investments in equipment, market-related investments, investments in production capacity and distribution network expansion at Coca-Cola FEMSA and expansion of the Retail Division, the Health Division and the Fuel Division, as mentioned above. **See Item 4. Information on the Company Capital Expenditures and Divestitures.**



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### **Expected Capital Expenditures for 2017**

Our capital expenditure budget for 2017 is expected to be US\$ 1,283 (Ps. 28,752) million. The following discussion is based on each of our sub-holding companies' internal budgets. The capital expenditure plan for 2017 is subject to change based on market and other conditions and the subsidiaries' results and financial resources.

Coca-Cola FEMSA has budgeted approximately US\$ 717 million for its capital expenditures in 2017, including its operations in the Philippines. Coca-Cola FEMSA's capital expenditures in 2017 are primarily intended for:

investments in production capacity;

market investments;

returnable bottles and cases;

improvements throughout our distribution network; and

investments in information technology.

Coca-Cola FEMSA estimates that of its projected capital expenditures for 2017, approximately 30.0% will be for its Mexican territories and the remaining will be for its non-Mexican territories. Coca-Cola FEMSA believes that internally generated funds will be sufficient to meet its budgeted capital expenditure for 2017. Coca-Cola FEMSA's capital expenditure plan for 2017 may change based on market and other conditions, our results and financial resources.

The Retail Division's capital expenditures budget in 2017 is expected to total US\$ 391 million, and will be allocated to the opening of new OXXO stores and to a lesser extent to the refurbishing of existing OXXO stores. In addition, investments are planned in FEMSA Comercio's IT, ERP software updates and transportation equipment.

The Health Division's capital expenditures budget in 2017 is expected to total US\$ 57 million, and will be allocated to the opening of new drugstores and, to a lesser extent, to the refurbishing of existing stores. In addition, investments are planned in warehouses, IT hardware and ERP software updates.

The Fuel Division's capital expenditures budget in 2017 is expected to total US\$ 43 million, and will be allocated to the opening of new service stations, the change of our existing brand to a fresh image and, to a lesser extent, to the refurbishing of existing OXXO GAS service stations.

### **Hedging Activities**

Our business activities require the holding or issuing of derivative instruments to hedge our exposure to market risks related to changes in interest rates, foreign currency exchange rates and commodity price risk. See **Item 11. Quantitative and Qualitative Disclosures about Market Risk.**

The following table provides a summary of the fair value of derivative financial instruments as of December 31, 2016. If such instruments are not traded in a formal market, fair value is determined by applying techniques based upon technical models we believe are supported by sufficient, reliable and verifiable market data, recognized in the financial sector.

**Fair Value At December 31, 2016**

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|   | <b>Maturity<br/>less than<br/>1 year</b> | <b>Maturity 1 - 3<br/>years</b> | <b>Maturity 3 - 5<br/>years</b> | <b>Maturity in<br/>excess of<br/>5 years</b> | <b>Fair<br/>Value<br/>Asset</b> |
|---|--|---------------------------------|---------------------------------|--|---------------------------------|
|   | <b>(in millions of Mexican pesos)</b>    |                                 |                                 |  |                                 |
| Derivative financial instruments position | Ps. 1,655                                | Ps. (1,418)                     | Ps. (231)                       | Ps. 9,970                                    | Ps. 9,977                       |

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**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

**Directors**

Management of our business is vested in the board of directors and in our chief executive officer. Our bylaws provide that the board of directors will consist of no more than 21 directors and their corresponding alternate directors elected by our shareholders at the AGM. Directors are elected for a term of one year. Alternate directors are authorized to serve on the board of directors in place of their specific directors who are unable to attend meetings and may participate in the activities of the board of directors. Our bylaws provide that the holders of the Series B Shares elect at least eleven directors and that the holders of the Series D Shares elect five directors. **See Item 10. Additional Information Bylaws.**

In accordance with our bylaws and article 24 of the Mexican Securities Law, at least 25% of the members of our board of directors must be independent (as defined by the Mexican Securities Law).

The board of directors may appoint interim directors in the event that a director is absent or an elected director and corresponding alternate are unable to serve. Such interim directors shall serve until the next AGM, at which the shareholders shall elect a replacement.

Our bylaws provide that the board of directors shall meet at least once every three months. Actions by the board of directors must be approved by at least a majority of the directors present and voting. The chairman of the board of directors, the chairman of our audit or corporate practices committee, or at least 25% of our directors may call a board of directors meeting and include matters in the meeting agenda.

Our board of directors was elected at the AGM held on March 16, 2017, and currently comprises 20 directors and 14 alternate directors. The following table sets forth the current members of our board of directors:

***Series B Directors***

|  |                              |   |
|--|------------------------------|---|
| José Antonio                           | Born:                        | February 1954   |
| Fernández                              | First elected<br>(Chairman): | 2001  |
| Carbajal <sup>(1) (2)</sup>            | First elected<br>(Director): | 1984  |
|  | Term expires:                | 2018  |
| <i>Executive Chairman of the Board</i> | Principal occupation:        | Executive Chairman of the board of directors of FEMSA |

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|  |                       |  |
|--|-----------------------|--|
|  | Other directorships:  | Chairman of the boards of directors of Coca-Cola FEMSA, Fundación FEMSA A.C., and Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM); Chairman Emeritus of the US Mexico Foundation; member of the board of directors of Heineken Holding, N.V., and vice-chairman of the supervisory board; chairman of the Americas committee and member of the preparatory committee and selection appointment committee of Heineken, N.V.; member of the board of directors of Industrias Peñoles, S.A.B. de C.V. (Peñoles), Grupo Televisa, S.A.B. de C.V. (Televisa) and Co-chairman of the advisory board of Woodrow Wilson Center, Mexico Institute |
|  | Business experience:  | Joined FEMSA's strategic planning department in 1988, after which he held managerial positions at FEMSA Cerveza's commercial division and OXXO. He was appointed Deputy Chief Executive Officer of FEMSA in 1991, and Chief Executive Officer in 1995, a position he held until December 31, 2013. On January 1, 2014, he was appointed Executive Chairman of our board of directors   |
|  | Education:            | Holds an industrial engineering degree and an MBA from ITESM   |
|  | Alternate director:   | Federico Reyes García  |
| Javier Gerardo Astaburuaga Sanjines        | Born:                 | July 1959  |
|  | First elected:        | 2006   |
|  | Term expires:         | 2018   |
| <i>Director</i>                            | Principal occupation: | Vice-President of Corporate Development of FEMSA   |
|  | Other directorships:  | Member of the board of directors of Coca-Cola FEMSA and Heineken N.V. Member of the audit committee of Heineken N.V., finances and investments committee of ITESM and of the investments committee of Grupo Acosta Verde   |
|  | Business experience:  | Joined FEMSA as a financial information analyst and later acquired experience in corporate development, administration and finance, held various senior positions at FEMSA Cerveza between 1993 and 2001, including Chief Financial Officer, and for two years was FEMSA Cerveza's Director of Sales for the north region of Mexico until 2003, in which year he was appointed FEMSA Cerveza's Co-Chief Executive Officer; held the position of Chief Financial and Corporate Officer of FEMSA from 2006-2015  |
|  | Education:            | Holds a degree in accounting from ITESM and is licensed as a Certified Public Accountant, or CPA   |
| Mariana Garza Lagüera Gonda <sup>(3)</sup> | Born:                 | April 1970   |
|  | First elected:        | 1998   |
|  | Term expires:         | 2018   |
| <i>Director</i>                            | Principal occupation: | Private investor   |



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|  |                       |  |
|--|-----------------------|--|
|  | Other directorships:  | Alternate member of the board of directors of Coca-Cola FEMSA; member of the boards of directors of ITESM, Museo de Historia Mexicana, Inmobiliaria Valmex, S.A. de C.V., Inversiones Bursátiles Industriales, S.A. de C.V., Desarrollo Inmobiliario la Sierrita, S.A. de C.V., Refrigeración York, S.A. de C.V., Peñitas, S.A. de C.V., Controladora Pentafem, S.A.P.I. de C.V. and Monte Serena, S.A. de C.V.  |
|  | Education:            | Holds an industrial engineering degree from ITESM and a Master of International Management from the Thunderbird American Graduate School of International Management   |
|  | Alternate director:   | Paulina Garza Lagüera Gonda <sup>(3)</sup>   |
| Eva María Garza<br>Lagüera Gonda <sup>(1)(3)</sup> | Born:                 | April 1958   |
|  | First elected:        | 1999   |
|  | Term expires:         | 2018   |
| <i>Director</i>                                    | Principal occupation: | Private investor   |
|  | Other directorships:  | Alternate member of the board of directors of Coca-Cola FEMSA; member of the boards of directors of ITESM, Premio Eugenio Garza Sada, Inmobiliaria Valmex, S.A. de C.V., Inversiones Bursátiles Industriales, S.A. de C.V., Desarrollo Inmobiliario la Sierrita, S.A. de C.V., Refrigeración York, S.A. de C.V., Peñitas, S.A. de C.V. and Controladora Pentafem, S.A.P.I. de C.V. Co-Founder and former President of Alternativas Pacíficas A.C.                          |
|  | Education:            | Holds a communications degree from ITESM   |
|  | Alternate director:   | Othón Páez Garza   |
| José Fernando<br>Calderón Rojas <sup>(4)</sup>     | Born:                 | July 1954  |
|  | First elected:        | 1984   |
|  | Term expires:         | 2018   |
| <i>Director</i>                                    | Principal occupation: | Chief Executive Officer and chairman of the boards of directors of Franca Servicios, S.A. de C.V., Servicios Administrativos de Monterrey, S.A. de C.V., Regio Franca, S.A. de C.V., and Franca Industrias, S.A. de C.V.   |
|  | Other directorships:  | Member of the boards of directors of Alfa, S.A.B. de C.V. (Alfa), and member of the regional consulting board of BBVA Bancomer, S.A., (BBVA) and member of the audit and corporate practices committees of Alfa; member of Fundación UANL, A.C.; founder of Centro Integral Down A.C.; President of Patronato del Museo del Obispado A.C. and member of the external advisory board of Facultad de Derecho y Criminología of the Universidad Autónoma de Nuevo León (UANL) |
|  | Education:            | Holds a law degree from UANL, completed specialization studies in tax at UANL and various courses in business administration by ITESM  |
|  | Alternate director:   | Francisco José Calderón Rojas <sup>(4)</sup>   |

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|  |   |
|--|---|
| <p>Alfonso Garza Garza<sup>(5)(6)</sup><br/><br/><i>Director</i></p> | <p>Born: July 1962<br/>                     First elected: 2001<br/>                     Term expires: 2018<br/>                     Principal occupation: Vice President of Strategic Businesses of FEMSA<br/>                     Other directorships: Alternate member of the boards of directors of Coca-Cola FEMSA; member of the board of directors of ITESM, Grupo Nutec, S.A. de C.V., American School Foundation of Monterrey, A.C. and Club Campestre de Monterrey, A.C.; vice-chairman of the executive commission of Confederación Patronal de la República Mexicana, S.P. (COPARMEX Nacional)<br/>                     Business experience: Has experience in several FEMSA business units and departments, including domestic sales, international sales, procurement and marketing, mainly at FEMSA Cerveza and as Chief Executive Officer of FEMSA Empaques<br/>                     Education: Holds an industrial engineering degree from ITESM and an MBA from Instituto Panamericano de Alta Dirección de Empresa (IPADE)<br/>                     Alternate director: Juan Carlos Garza Garza<sup>(5)(6)</sup></p> |
| <p>Max Michel González<sup>(7)(8)</sup><br/><br/><i>Director</i></p> | <p>Born: June 1968<br/>                     First elected: 1996<br/>                     Term expires: 2018<br/>                     Principal occupation: Operations Manager at Servicios Liverpool, S.A. de C.V.<br/>                     Other directorships: Alternate member of the board of directors of Coca-Cola FEMSA; member of the board of directors and audit committee of Grupo Lamosa, S.A.B. de C.V. (Lamosa). Member of the board of directors of El Puerto de Liverpool, S.A.B. de C.V. (Liverpool) and Afianzadora Sofimex, S.A.B. de C.V.<br/>                     Education: Holds a business administration degree from Universidad Iberoamericana<br/>                     Alternate director: Bertha Michel González<sup>(7)(8)</sup></p>   |
| <p>Alberto Bailleres González<br/><br/><i>Director</i></p>           | <p>Born: August 1931<br/>                     First elected: 1989<br/>                     Term expires: 2018<br/>                     Principal occupation: Chairman of the boards of directors of the following companies which are part of Grupo BAL, S.A. de C.V.: Peñoles, Grupo Nacional Provincial, S.A.B. (GNP), Fresnillo plc (Fresnillo), Grupo Palacio de Hierro, S.A.B. de C.V., Grupo Profuturo, S.A.B. de C.V., Controladora Petrobal, S.A. de C.V., Energía Bal, S.A. de C.V., Energía Eléctrica Bal, S.A. de C.V., EnerAB, S. de R.L. de C.V., Tane, S.A. de C.V., chairman of the governance board of Instituto Tecnológico Autónomo de México (ITAM) and founding member of Fundación Alberto Bailleres, A.C.</p>   |

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|  |                       |   |
|--|-----------------------|---|
|  | Other directorships:  | Member of the boards of directors of Grupo Financiero BBVA Bancomer, S.A. de C.V. (Grupo Financiero BBVA Bancomer), BBVA, Dine, S.A.B. de C.V. (Dine), Televisa, Grupo Kuo, S.A.B. de C.V. (Kuo), and member of the advisory board of JP Morgan International Council and Consejo Mexicano de Negocios                      |
|  | Education:            | Holds an economics degree and an Honorary Doctorate from ITAM   |
|  | Alternate director:   | Arturo Fernández Pérez  |
| Francisco Javier Fernández Carbajal <sup>(2)</sup> | Born:                 | April 1955  |
|  | First elected:        | 2004  |
|  | Term expires:         | 2018  |
| <i>Director</i>                                    | Principal occupation: | Chief Executive Officer of Servicios Administrativos Contry, S.A. de C.V.   |
|  | Other directorships:  | Member of the boards of directors of Visa, Inc., Alfa, Cemex, S.A.B. de C.V., Frisa Forjados, S.A. de C.V., Corporación EG, S.A. de C.V., and alternate member of the board of directors of Peñoles   |
|  | Education:            | Holds a mechanical and electrical engineering degree from ITESM and an MBA from Harvard University Business School  |
|  | Alternate director:   | Daniel Alberto Rodríguez Cofré  |
| Ricardo Guajardo Touché                            | Born:                 | May 1948  |
|  | First elected:        | 1988  |
|  | Term expires:         | 2018  |
| <i>Director</i>                                    | Principal occupation: | Chairman of the board of directors of Solfi, S.A. de C.V. (Solfi)   |
|  | Other directorships:  | Member of the boards of directors of Coca-Cola FEMSA, Grupo Valores Operativos Monterrey, S.A.P.I. de C.V., Liverpool, Alfa, Grupo Financiero BBVA Bancomer, BBVA, Grupo Aeroportuario del Sureste, S.A. de C.V., Grupo Bimbo, S.A.B. de C.V. (Bimbo), Grupo Coppel, S.A. de C.V. (Coppel), ITESM and Vitro, S.A.B. de C.V. |
|  | Education:            | Holds an electrical engineering degree from ITESM and the University of Wisconsin and a master's degree from the University of California at Berkeley   |
| Alfonso González Migoya                            | Born:                 | January 1945  |
|  | First elected:        | 2006  |
|  | Term expires:         | 2018  |
| <i>Director</i>                                    | Principal occupation: | Chairman of the board of directors of Controladora Vuela Compañía de Aviación, S.A.B. de C.V. (Volaris) and managing partner of Acumen Empresarial, S.A. de C.V.  |

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|------------------------|-----------------------|--|
|                        | Other directorships:  | Member of the boards of directors of Coca-Cola FEMSA, Nemark, S.A.B. de C.V., Bolsa Mexicana de Valores, S.A.B. de C.V., Banregio Grupo Financiero, S.A., Grupo Cuprum, S.A. de C.V., Berel, S.A. de C.V., Servicios Corporativos JAVER, S.A.B. de C.V., and ITESM   |
|                        | Education:            | Holds a Mechanical Engineering degree from ITESM and a Master in Business Administration from the Stanford University Graduate School of Business  |
|                        | Alternate Director:   | Sergio Deschamps Ebergenyi   |
| Carlos Salazar Lomelín | Born:                 | April 1951   |
|                        | First elected:        | 2014   |
|                        | Term expires:         | 2018   |
| <i>Director</i>        | Principal occupation: | Chief Executive Officer of FEMSA   |
|                        | Other directorships:  | Member of the boards of directors of Coca-Cola FEMSA, Grupo Financiero BBVA Bancomer, BBVA and Fundación FEMSA; member of the advisory board of Premio Eugenio Garza Sada, Centro Internacional de Negocios Monterrey A.C. (CINTERMEX), Asociación Promotora de Exposiciones, A.C. and the ITESM's EGADE Business School; Executive Chairman of the Strategic Planning Board of the State of Nuevo León, Mexico  |
|                        | Business experience:  | In addition, Mr. Salazar has held managerial positions in several subsidiaries of FEMSA, including Grafo Regia, S.A. de C.V. and Plásticos Técnicos Mexicanos, S.A. de C.V., served as Chief Executive Officer of FEMSA Cerveza, where he also held various management positions in the Commercial Planning and Export divisions; in 2000 he was appointed as Chief Executive Officer of Coca-Cola FEMSA, a position he held until December 31, 2013; on January 1, 2014 he was appointed Chief Executive Officer of FEMSA |
|                        | Education:            | Holds an economics degree from ITESM and performed postgraduate studies in business administration at ITESM and economic development in Italy  |
|                        | Alternate director:   | Miguel Eduardo Padilla Silva   |
| Bárbara Garza Lagüera  | Born:                 | December 1959  |
|                        | First elected:        | 1998   |
|                        | Term expires:         | 2018   |
| Gonda <sup>(3)</sup>   | Principal occupation: | Private Investor and President of the acquisitions committee of Colección FEMSA  |
| <i>Director</i>        |                       |  |

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|                           |                       |  |
|---------------------------|-----------------------|--|
|                           | Other directorships:  | Member of the board of directors of Coca-Cola FEMSA; vice-chairman of the board of directors of ITESM Campus Mexico City and member of the boards of directors of, Solfi, Inmobiliaria Valmex, S.A. de C.V., Inversiones Bursátiles Industriales, S.A. de C.V., Desarrollo Inmobiliario la Sierrita, S.A. de C.V., Refrigeración York, S.A. de C.V., Peñitas, S.A. de C.V., Controladora Pentafem, S.A.P.I. de C.V., BECL, S.A. de C.V. and Supervision Commission: FONCA- Fondo Nacional Cultural y Artes |
|                           | Education:            | Holds a business administration degree from ITESM  |
|                           | Alternate director:   | Juan Guichard Michel <sup>(8)</sup>  |
| Ricardo E. Saldívar       | Born:                 | November 1952  |
|                           | First elected:        | 2006   |
| Escajadillo               | Term expires:         | 2018   |
| <i>Director</i>           | Principal Occupation: | President of the board of directors and Chief Executive Officer of The Home Depot Mexico   |
|                           | Other directorships:  | Member of the boards of directors of Asociación Nacional de Tiendas de Autoservicio y Departamentales, A.C., Cluster de Vivienda de Nuevo León, American Chamber of Commerce of Mexico Monterrey Chapter, Axtel, S.A.B. de C.V. and ITESM  |
|                           | Education:            | Holds a mechanical and industrial engineering degree from ITESM, a Master's degrees in systems engineering from Georgia Tech Institute and executive studies from IPADE  |
| Alfonso de Angoitia       | Born:                 | January 1962   |
|                           | First elected:        | 2015   |
| Noriega                   | Term expires:         | 2018   |
| <i>Director</i>           | Principal Occupation: | Executive vice-chairman and chairman of the finance committee of Televisa  |
|                           | Other directorships:  | Member of the boards of directors of Univision Communications, Inc., Banco Mercantil del Norte, S.A., Empresas Cablevisión, S.A. de C.V., Innova, S. de R.L. de C.V. (Sky), The Americas Society and The Paley Center for Media  |
|                           | Education:            | Holds a law degree from the Universidad Nacional Autónoma de México  |
| <b>Series D Directors</b> |                       |  |
| Armando Garza Sada        | Born:                 | June 1957  |
|                           | First elected:        | 2003   |
| <i>Director</i>           | Term expires:         | 2018   |
|                           | Principal occupation: | Chairman of the board of directors of Alfa, Alpek, S.A.B. de C.V. and Nemark, S.A.B. de C.V.   |
|                           | Other directorships:  | Member of the boards of directors of Axtel, S.A.B. de C.V., Liverpool, Lamosa, Cemex, S.A.B. de C.V., Frisa Industrias, S.A. de C.V., Grupo PROEZA, S.A.P.I. de C.V. and ITESM   |

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|                 |                       |  |
|-----------------|-----------------------|--|
|                 | Business experience:  | He has a long professional career in Alfa, including as Executive Vice President of Corporate Development  |
|                 | Education:            | Holds a BS in management from the Massachusetts Institute of Technology and an MBA from Stanford University Graduate School of Business  |
|                 | Alternate director:   | Enrique F. Senior Hernández  |
| Moisés Naim     | Born:                 | July 1952  |
|                 | First elected:        | 2011   |
| <i>Director</i> | Term expires:         | 2018   |
|                 | Principal occupation: | Distinguished Fellow Carnegie Endowment for International Peace; producer and host of Efecto Naim; author and journalist   |
|                 | Business experience:  | Former Editor in Chief of Foreign Policy Magazine  |
|                 | Other directorships:  | Member of the board of directors of AES Corporation  |
|                 | Education:            | Holds a degree from the Universidad Metropolitana de Venezuela and a Master of Science and PhD from the Massachusetts Institute of Technology  |
|                 | Alternate director:   | Francisco Zambrano Rodríguez   |
| José Manuel     | Born:                 | February 1940  |
|                 | First elected:        | 2003   |
| Canal Hernando  | Term expires:         | 2018   |
|                 | Principal occupation: | Independent consultant   |
| <i>Director</i> | Business experience:  | Former managing partner at Arthur Andersen (Ruiz, Urquiza y Cía, S.C.) from 1981 to 1999, acted as statutory examiner of FEMSA from 1984 to 2002, founder and chairman of the Mexican Accounting Standards Board and has extensive experience in financial auditing for holding companies, banks and financial brokers |
|                 | Other directorships:  | Member of the board of directors of Coca-Cola FEMSA, Grupo Kuo, S.A.B. de C.V., Grupo Industrial Saltillo, S.A.B. de C.V. and Estafeta Mexicana, S.A. de C.V., member of the risk committee of Gentera Banco, and statutory examiner of Grupo Financiero BBVA Bancomer, BBVA and Bank of America                       |
|                 | Education:            | Holds a CPA degree from Universidad Nacional Autónoma de México  |
| Michael Larson  | Born:                 | October 1959   |
|                 | First elected:        | 2011   |
| <i>Director</i> | Term expires:         | 2018   |
|                 | Principal occupation: | Chief Investment Officer of William H. Gates III   |

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|                  |                       |   |
|------------------|-----------------------|---|
|                  | Other directorships:  | Member of the boards of directors of AutoNation, Inc, Republic Services, Inc, Ecolab, Inc., and chairman of the board of trustees of Western Asset/Claymore Inflation-Linked Securities & Income Fund and Western Asset/Claymore Inflation-Linked Opportunities & Income Fund |
|                  | Education:            | Holds an MBA from the University of Chicago and a BA from Claremont McKenna College   |
| Robert E. Denham | Born:                 | August 1945   |
|                  | First elected:        | 2001  |
| <i>Director</i>  | Term expires:         | 2018  |
|                  | Principal occupation: | Partner of Munger, Tolles & Olson LLP   |
|                  | Other directorships:  | Member of the boards of directors of New York Times Co., Oaktree Capital Group, LLC and Chevron Corp  |
|                  | Education:            | Magna cum laude graduate from the University of Texas, holds a JD from Harvard Law School and an MA in Government from Harvard University   |
|                  | Alternate Director:   | Ernesto Cruz Velázquez de León  |

- (1) José Antonio Fernández Carbajal and Eva María Garza Lagüera Gonda are spouses.
- (2) José Antonio Fernández Carbajal and Francisco Javier Fernández Carbajal are siblings.
- (3) Mariana Garza Lagüera Gonda, Eva María Garza Lagüera Gonda, Paulina Garza Lagüera Gonda and Bárbara Garza Lagüera Gonda are siblings.
- (4) Francisco José Calderón Rojas and José Fernando Calderón Rojas are siblings.
- (5) Alfonso Garza Garza and Juan Carlos Garza Garza are siblings.
- (6) Juan Carlos Garza Garza and Alfonso Garza Garza are cousins of Eva María Garza Lagüera Gonda, Mariana Garza Lagüera Gonda, Paulina Garza Lagüera Gonda and Bárbara Garza Lagüera Gonda.
- (7) Bertha Michel González and Max Michel González are siblings.
- (8) Juan Guichard Michel, Max Michel González and Bertha Michel González are cousins.

**Senior Management**

The names and positions of the members of our current senior management and that of our principal sub-holding companies, their dates of birth and information on their principal business activities both within and outside of FEMSA are as follows:

**FEMSA**

|                     |                                |  |
|---------------------|--------------------------------|--|
| José Antonio        | Born:                          | February 1954  |
|                     | Joined FEMSA:                  | 1987   |
| Fernández Carbajal  | Appointed to current position: |  |
| <i>Executive</i>    |                                | 2001   |
| <i>Chairman</i>     | Principal occupation:          | Executive Chairman of the board of directors of FEMSA  |
| <i>of the Board</i> | Directorships:                 | Chairman of the boards of directors of Coca-Cola FEMSA, Fundación FEMSA A.C., and ITESM; Chairman Emeritus of the US Mexico Foundation; member of the board of directors of Heineken Holding, N.V., and vice-chairman of the supervisory board; chairman of the Americas committee and member of the preparatory committee and selection appointment committee of Heineken, N.V.; member of the board of directors of Peñoles, Televisa and Co-chairman of the advisory board of Woodrow Wilson Center, Mexico Institute |

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|  |                                   |   |
|--|-----------------------------------|---|
|  | Business experience within FEMSA: | Joined FEMSA's strategic planning department in 1988, after which he held managerial positions at FEMSA Cerveza's commercial division and OXXO. He was appointed Deputy Chief Executive Officer of FEMSA in 1991, and Chief Executive Officer in 1995, a position he held until December 31, 2013. On January 1, 2014, he was appointed Executive Chairman of our board of directors  |
|  | Education:                        | Holds an industrial engineering degree and an MBA from ITESM  |
| Carlos Salazar Lomelín                       | Born:                             | April 1951  |
|  | Joined FEMSA:                     | 1973  |
| <i>Chief Executive Officer</i>               | Appointed to current position:    | 2014  |
|  | Principal occupation:             | Chief Executive Officer of FEMSA  |
|  | Directorships:                    | Member of the boards of directors of Coca-Cola FEMSA, Grupo Financiero BBVA Bancomer, BBVA and Fundación FEMSA; member of the advisory board of Premio Eugenio Garza Sada, Centro Internacional de Negocios Monterrey A.C. (CINTERMEX), Asociación Promotora de Exposiciones, A.C. and the ITESM's EGADE Business School; Executive Chairman of the Strategic Planning Board of the State of Nuevo León, Mexico   |
|  | Business experience within FEMSA: | Has held managerial positions in several subsidiaries of FEMSA, including Grafo Regia, S.A. de C.V. and Plásticos Técnicos Mexicanos, S.A. de C.V., served as Chief Executive Officer of FEMSA Cerveza, where he also held various management positions in the Commercial Planning and Export divisions; in 2000, was appointed as Chief Executive Officer of Coca-Cola FEMSA, a position he held until December 31, 2013; on January 1, 2014, was appointed Chief Executive Officer of FEMSA |
|  | Education:                        | Holds an economics degree from ITESM and performed postgraduate studies in business administration at ITESM and economic development in Italy   |
| Miguel Eduardo Padilla Silva                 | Born:                             | January 1955  |
|  | Joined FEMSA:                     | 1997  |
| <i>Chief Financial and Corporate Officer</i> | Appointed to current position:    | 2016  |
|  | Business experience within FEMSA: | Held the positions of Planning and Control Officer of FEMSA from 1997 to 1999 and Chief Executive Officer of the Strategic Procurement Business Division of FEMSA from 2000 to 2003. Prior to his current position, held the position of Chief Executive Officer of FEMSA Comercio from 2004 to 2016  |
|  | Other business experience:        | Had a 20-year career in Alfa, culminating with a ten-year tenure as Chief Executive Officer of Terza, S.A. de C.V., major areas of expertise include operational control, strategic planning and financial restructuring  |
|  | Directorships:                    | Alternate member of the board of directors of FEMSA, member of the boards of directors of Coca-Cola FEMSA, Lamosa, Club Industrial, A.C., Universidad Tec Milenio and Coppel  |



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|   |                                   |   |
|---|-----------------------------------|---|
|   | Education:                        | Holds a mechanical engineering degree from ITESM, an MBA from Cornell University and executive management studies at IPADE  |
| Javier Gerardo Astaburuaga Sanjines                           | Born:                             | July 1959   |
| <i>Vice President of Corporate Development</i>                | Joined FEMSA:                     | 1982  |
|   | Appointed to current position:    | 2015  |
|   | Business experience within FEMSA: | Joined FEMSA as a financial information analyst and later acquired experience in corporate development, administration and finance. Held various senior positions at FEMSA Cerveza between 1993 and 2001, including Chief Financial Officer, and for two years prior to his current position, served as FEMSA Cerveza's Director of Sales for the north region of México, until 2003, when he was appointed FEMSA Cerveza's Co-Chief Executive Officer. Held the position of Chief Financial and Corporate Officer of FEMSA from 2006 to 2015 |
|   | Directorships:                    | Member of the board of directors of FEMSA, Coca-Cola FEMSA and Heineken N.V. Member of the audit committee of Heineken N.V., finances and investments committee of ITESM and of the investments committee of Grupo Acosta Verde   |
|   | Education:                        | Holds a degree in accounting from ITESM and is licensed as a Certified Public Accountant, or CPA  |
| José González Ornelas   | Born:                             | April 1951  |
| <i>Vice President of Administration and Corporate Control</i> | Joined FEMSA:                     | 1973  |
|   | Appointed to current position:    | 2001  |
|   | Business experience within FEMSA: | Has held several managerial positions in FEMSA including Chief Financial Officer of FEMSA Cerveza, Director of Planning and Corporate Development of FEMSA and Chief Executive Officer of FEMSA Logística   |
|   | Directorships:                    | Member of the board of directors of Productora de Papel, S.A.   |
|   | Education:                        | Holds a CPA degree from UANL and has post-graduate studies in business administration from IPADE  |
| Alfonso Garza Garza   | Born:                             | July 1962   |
| <i>Vice President of Strategic Businesses</i>                 | Joined FEMSA:                     | 1985  |
|   | Appointed to current position:    | 2009  |
|   | Directorships:                    | Member of the board of directors of FEMSA, alternate member of the board of directors of Coca-Cola FEMSA, member of the board of directors of ITESM, Grupo Nutec, S.A. de C.V., American School Foundation of Monterrey, A.C. and Club Campestre de Monterrey, A.C.; vice-chairman of the executive commission of Confederación Patronal de la República Mexicana, S.P. (COPARMEX Nacional)   |
|   | Business experience:              | Has experience in several FEMSA business units and departments, including domestic sales, international sales, procurement and marketing, mainly at FEMSA Cerveza and as Chief Executive Officer of FEMSA Empaques  |
|   | Education:                        | Holds an industrial engineering degree from ITESM and an MBA from IPADE   |

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|  |                                   |   |
|--|-----------------------------------|---|
| Genaro Borrego Estrada   | Born:                             | February 1949   |
| <i>Vice President of Corporate Affairs</i>                     | Joined FEMSA:                     | 2008  |
|  | Appointed to current position:    | 2008  |
|  | Professional experience:          | Constitutional Governor of the Mexican State of Zacatecas from 1986 to 1992, General Director of the Mexican Social Security Institute from 1993 to 2000, and Senator in Mexico for the State of Zacatecas from 2000 to 2006  |
|  | Directorships:                    | Chairman of the board of directors of GB y Asociados and member of the boards of directors of Fundación Mexicanos Primero, Fundación IMSS and CEMEFI  |
|  | Education:                        | Holds an industrial relations degree from the Universidad Iberoamericana  |
| Carlos Eduardo Aldrete   | Born:                             | August 1956   |
| Ancira   | Joined FEMSA:                     | 1979  |
| <i>General Counsel and Secretary of the Board of Directors</i> | Appointed to current position:    | 1996  |
|  | Directorships:                    | Secretary of the board of directors of FEMSA, Coca-Cola FEMSA and all other sub-holding companies of FEMSA  |
|  | Business experience within FEMSA: | Extensive experience in international business and financial transactions, debt issuances and corporate restructurings and expertise in securities and private mergers and acquisitions   |
|  | Education:                        | Holds a law degree from UANL and a master's degree in Corporate Law from the College of Law of the University of Illinois   |
| <b><i>Coca-Cola FEMSA</i></b>                                  |                                   |   |
| John Anthony   | Born:                             | August 1957   |
| Santa Maria Otazua   | Joined FEMSA:                     | 1995  |
| <i>Chief Executive Officer of Coca-Cola FEMSA</i>              | Appointed to current position:    | 2014  |
|  | Business experience within FEMSA: | Has served as Strategic Planning and Business Development Officer and Chief Operating Officer of the Mexican operations of Coca-Cola FEMSA. Has served as Strategic Planning and Commercial Development Officer and Chief Operating Officer of South America division of Coca-Cola FEMSA. He also has experience in several areas of Coca-Cola FEMSA, namely development of new products and mergers and acquisitions. Has experience with different bottler companies in Mexico in areas such as Strategic Planning and General Management |

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|                            |  |
|----------------------------|--|
| Other business experience: | Has experience with different bottler companies in Mexico in areas such as Strategic Planning and General Management   |
| Directorships:             | Member of the board of directors of Coca-Cola FEMSA, Gentera, S.A.B. de C.V. and member of the board of directors and commercial committee of Banco Compartamos, S.A., Institución de Banca Múltiple |
| Education:                 | Holds a degree in Business Administration and an MBA with a major in Finance from Southern Methodist University  |

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|   |                                   |  |
|---|-----------------------------------|--|
| Héctor Treviño<br>Gutiérrez                               | Born:                             | August 1956  |
|   | Joined FEMSA:                     | 1981   |
| <i>Chief Financial<br/>Officer of Coca-Cola<br/>FEMSA</i> | Appointed to current<br>position: | 1993   |
|   | Business experience               |  |
|   | within FEMSA:                     | At FEMSA, was in charge of the International Financing department, served as Manager of Financial Planning and Manager of International Financing, Chief Officer of Strategic Planning and Chief Officer of Business Development and headed the Corporate Development department   |
|   | Directorships:                    | Alternate member of the board of directors of Coca-Cola FEMSA, member of the board of directors and audit committee of Vinte Viviendas Integrales, S.A.P.I. de C.V., member of the board of directors, audit committee, and investments and risks committee of Seguros y Pensiones BBVA Bancomer, and member of the technical committee of Capital i-3 |
|   | Education:                        | Holds a degree in chemical engineering from ITESM and an MBA from the Wharton School of Business   |

**FEMSA Comercio**

|  |                                   |  |
|--|-----------------------------------|--|
| Daniel Alberto<br>Rodríguez Cofré                        | Born:                             | June 1965  |
|  | Joined FEMSA:                     | 2015   |
| <i>Chief Executive<br/>Officer of FEMSA<br/>Comercio</i> | Appointed to current<br>position: | 2016   |
|  | Business experience:              | Has broad experience in international finance in Latin America, Europe and Africa, held several financial roles at Shell International Group in Latin America and Europe; in 2008 he was appointed as Chief Financial Officer of CENCOSUD (Centros Comerciales Sudamericanos S.A.), and from 2009 to 2014 he held the position of Chief Executive Officer at the same company. He was Chief Financial and Corporate Officer of FEMSA during 2015 |
|  | Directorships:                    | Alternate member of the boards of directors of Coca-Cola FEMSA and FEMSA   |
|  | Education:                        | Holds a forest engineering degree from Austral University of Chile and an MBA from Adolfo Ibañez University  |

**Compensation of Directors and Senior Management**

The compensation of Directors is approved at the AGM. For the year ended December 31, 2016, the aggregate compensation paid to our directors by the Company was approximately Ps. 36 million. In addition, in the year ended December 31, 2016, Coca-Cola FEMSA paid approximately Ps. 12 million in aggregate compensation to the Directors and executive officers of FEMSA who also serve as directors on the board of Coca-Cola FEMSA.

For the year ended December 31, 2016, the aggregate compensation paid to executive officers and senior management of FEMSA and its subsidiaries was approximately Ps. 1,978 million. Aggregate compensation includes bonuses we paid to certain members of senior management and payments in connection with the EVA stock incentive plan described in Note 17 to our audited consolidated financial statements. Our senior management and executive officers participate in our benefit plan and post-retirement medical services plan on the same basis as our other employees. Members of our board of directors do not participate in our benefit plan and post-retirement medical services plan, unless they are retired employees of our company. As of December 31, 2016, amounts set aside or accrued for all employees under these retirement plans were Ps. 6,825 million, of which Ps. 2,378 million is already funded.



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### **EVA Stock Incentive Plan**

In 2004, we, along with our subsidiaries, commenced a new stock incentive plan for the benefit of our senior executives, which we refer to as the EVA stock incentive plan. This plan uses as its main evaluation metric the Economic Value Added (EVA) framework developed by Stern Stewart & Co., a compensation consulting firm. Under the EVA stock incentive plan, eligible employees are entitled to receive a special cash bonus, which will be used to purchase shares of FEMSA (in the case of employees of FEMSA) or of both FEMSA and Coca-Cola FEMSA (in the case of employees of Coca-Cola FEMSA). Under the plan it is also possible to provide stock options of FEMSA or Coca-Cola FEMSA to employees, however since the plan's inception only shares have been granted.

Under this plan, each year, our Chief Executive Officer together with the Corporate Governance Committee of our board of directors, together with the chief executive officer of the respective sub-holding company, determines the employees eligible to participate in the plan. A bonus formula is then created for each eligible employee, using the EVA framework, which determines the number of shares to be received by such employee. The terms and conditions of the share-based payment arrangement are then agreed upon with the eligible employee, such that the employee can begin to accrue shares under the plan. Until 2015, the shares vested ratably over a six-year period; from January 1, 2016, they will ratably vest over a four-year period, with retrospective effects. We account for the EVA stock incentive plan as an equity-settled share based payment transaction, as we will ultimately settle our obligations with our employees by issuing our own shares or those of our subsidiary Coca-Cola FEMSA.

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. The formula considers the employee's level of responsibility within the organization, the employee's evaluation and competitive compensation in the market. The bonus is granted to the eligible employee on an annual basis and after withholding applicable taxes.

The shares are administered by a trust for the benefit of the eligible executives (the Administrative Trust). We created the Administrative Trust with the objective of administering the purchase of FEMSA and Coca-Cola FEMSA shares, so that the shares can then be assigned to the eligible executives participating in the EVA stock incentive plan. The Administrative Trust's objectives are to acquire shares of FEMSA or of Coca-Cola FEMSA and to manage the shares granted to the individual employees based on instructions set forth by the Technical Committee of the Administrative Trust. 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 non-controlling interest (as it relates to Coca-Cola FEMSA's shares). 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 us. 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.

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

As of April 12, 2017, the trust that manages the EVA stock incentive plan held a total of 3,447,230 BD Units of FEMSA and 1,014,283 Series L Shares of Coca-Cola FEMSA, each representing 0.10% and 0.05% of the total number of shares outstanding of FEMSA and of Coca-Cola FEMSA, respectively.

### **Insurance Policies**

We maintain life insurance policies for all of our employees. These policies mitigate the risk of having to pay benefits in the event of an industrial accident, natural or accidental death within or outside working hours, and total and permanent disability. We maintain a directors' and officers' insurance policy covering all directors and certain key executive officers for liabilities incurred in their capacities as directors and officers.

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Several of our directors are participants of a voting trust. Each of the trust participants of the voting trust is deemed to have beneficial ownership with shared voting power over the shares deposited in the voting trust. As of March 31, 2017, 6,922,159,485 Series B Shares representing 74.86% of the outstanding Series B Shares were deposited in the voting trust. See **Item 7. Major Shareholders and Related-Party Transactions.**

The following table shows the Series B Shares, Series D-B Shares and Series D-L Shares as of March 16, 2017 beneficially owned by our directors and alternate directors who are participants in the voting trust, other than shares deposited in the voting trust:

| Beneficial Owner  | Series B  |                  | Series D-B |                  | Series D-L |                  |
|---|-----------|------------------|------------|------------------|------------|------------------|
|   | Shares    | Percent of Class | Shares     | Percent of Class | Shares     | Percent of Class |
| Eva María Garza Lagüera Gonda   | 2,769,980 | 0.03%            | 5,539,960  | 0.13%            | 5,539,960  | 0.13%            |
| Mariana Garza Lagüera Gonda   | 2,815,480 | 0.03%            | 5,630,960  | 0.13%            | 5,630,960  | 0.13%            |
| Bárbara Garza Lagüera Gonda   | 2,665,480 | 0.03%            | 5,330,960  | 0.12%            | 5,330,960  | 0.12%            |
| Paulina Garza Lagüera Gonda   | 2,665,480 | 0.03%            | 5,330,960  | 0.12%            | 5,330,960  | 0.12%            |
| Alberto Bailleres González  | 9,610,577 | 0.10%            | 19,221,154 | 0.44%            | 19,221,154 | 0.44%            |
| Alfonso Garza Garza   | 877,633   | 0.01%            | 1,755,266  | 0.04%            | 1,755,266  | 0.04%            |
| Juan Carlos Garza Garza   | 18,200    | 0%               | 36,400     | 0%               | 36,400     | 0%               |
| Max Michel González   | 5,675     | 0%               | 11,350     | 0%               | 11,350     | 0%               |
| Francisco José Calderón Rojas and José Fernando Calderón Rojas <sup>(1)</sup> | 8,317,629 | 0.09%            | 16,635,258 | 0.38%            | 16,635,258 | 0.38%            |
| Juan Guichard Michel  | 9,117,131 | 0.10%            | 18,234,262 | 0.42%            | 18,234,262 | 0.42%            |

(1) Shares beneficially owned through various family-controlled entities.

To our knowledge, no other director or officer is the beneficial owner of more than 1% of any class of our capital stock.

**Board Practices**

Our bylaws state that the board of directors will meet at least once every three months following the end of each quarter to discuss our operating results and the advancement of strategic objectives. Our board of directors can also hold extraordinary meetings. See **Item 10. Additional Information Bylaws.**

Under our bylaws, directors serve one-year terms although they continue in office even after the term for which they were appointed ends for up to 30 calendar days, as set forth in article 24 of Mexican Securities Law. None of our directors or senior managers of our subsidiaries has service contracts providing for benefits upon termination of employment, other than post-retirement medical services plans and post-retirement pension plans for our senior managers on the same basis as our other employees.

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Our board of directors is supported by committees, which are working groups that analyze issues and provide recommendations to the board of directors regarding their respective areas of focus. The executive officers interact periodically with these committees to address management issues. Each committee has a secretary who attends meetings but is not a member of the committee. The following are the three committees of the board of directors, the members of which were elected at our AGM on March 16, 2017:

*Audit Committee.* The Audit Committee is responsible for (1) reviewing the accuracy and integrity of quarterly and annual financial statements in accordance with accounting, internal control and auditing requirements, (2) the appointment, compensation, retention and oversight of the independent auditor, who reports directly to the Audit Committee and (3) identifying and following-up on contingencies and legal proceedings. The Audit Committee has implemented procedures for receiving, retaining and addressing complaints regarding accounting, internal control and auditing matters, including the submission of confidential, anonymous complaints from employees regarding questionable accounting or auditing matters. Pursuant to the Mexican Securities Law, the chairman of the audit committee is elected by the shareholders at the AGM. The chairman of the Audit Committee submits a quarterly and an annual report to the board of directors of the Audit Committee's activities performed during the corresponding fiscal year, and the annual report is submitted at the AGM for approval. To carry out its duties, the Audit Committee may hire independent counsel and other advisors. As necessary, the company compensates the independent auditor and any outside advisor hired by the Audit Committee and provides funding for ordinary administrative expenses incurred by the Audit Committee in the course of its duties. The current Audit Committee members are: José Manuel Canal Hernando (chairman and financial expert), Alfonso González Migoya, Francisco Zambrano Rodríguez and Ernesto Cruz Velázquez de León. Each member of the Audit Committee is an independent director, as required by the Mexican Securities Law and applicable U.S. Securities Laws and applicable NYSE listing standards. The secretary (non-member) of the Audit Committee is José González Ornelas, FEMSA's Vice President of Administration and Corporate Control.

*Strategy and Finance Committee.* The Strategy and Finance Committee's responsibilities include (1) evaluating the investment and financing policies of our company; (2) evaluating the risk factors to which the company is exposed, as well as evaluating its management policies; (3) making recommendations on our dividend policy; (4) strategic analysis and assessment of our business units and strategic alternatives for their growth; and (5) making recommendations to our board of directors on annual operation plans and strategic projects for our business units. The current Strategy and Finance Committee members are: Ricardo Guajardo Touché (chairman), Federico Reyes García, Robert E. Denham, Francisco Javier Fernández Carbajal, Enrique F. Senior Hernández, José Antonio Fernández Carbajal, Ricardo Saldívar Escajadillo and Javier Gerardo Astaburuaga Sanjines. The secretary (non-member) of the Strategy and Finance Committee is Miguel Eduardo Padilla Silva.

*Corporate Practices Committee.* The Corporate Practices Committee is responsible for preventing or reducing the risk of performing operations that could damage the value of our company or that benefit a particular group of shareholders. The committee may call a shareholders' meeting and include matters on the agenda for that meeting that it may deem appropriate, approve policies on the use of our company's assets or related-party transactions, approve the compensation of the Chief Executive Officer and relevant officers and support our board of directors in the elaboration of reports on accounting practices. Pursuant to the Mexican Securities Law, the chairman of the Corporate Practice Committee is elected by the shareholders at the AGM. The chairman of the Corporate Practices Committee submits a quarterly and an annual report to the board of directors of the Corporate Practices Committee's activities performed during the corresponding fiscal year, and the annual report is submitted at the AGM for approval. The members of the Corporate Practices Committee are: Ricardo Saldívar Escajadillo (chairman), Robert E. Denham, Moises Naim and Ricardo Guajardo Touché. Each member of the Corporate Practices Committee is an independent director. The secretary (non-member) of the Corporate Practices Committee is Miguel Eduardo Padilla Silva.



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As of December 31, 2016, our headcount by geographic region was as follows: 200,365 in Mexico, 6,715 in Central America, 9,203 in Colombia, 6,464 in Venezuela, 27,233 in Brazil, 2,874 in Argentina, 1,336 in the United States, 26 in Ecuador, 22 in Peru and 11,906 in Chile. We include in headcount employees of third-party distributors and non-management store employees. The table below sets forth headcount for the years ended December 31, 2016, 2015 and 2014:

**Headcount for the Year Ended December 31,**

|                                    | 2016      |         |         | 2015      |         |         | 2014      |         |         |
|------------------------------------|-----------|---------|---------|-----------|---------|---------|-----------|---------|---------|
|                                    | Non-Union | Union   | Total   | Non-Union | Union   | Total   | Non-Union | Union   | Total   |
| <b>Sub-holding company:</b>        |           |         |         |           |         |         |           |         |         |
| Coca-Cola FEMSA <sup>(1)</sup>     | 34,010    | 51,135  | 85,145  | 33,857    | 49,855  | 83,712  | 34,221    | 49,150  | 83,371  |
| FEMSA Comercio                     |           |         |         |           |         |         |           |         |         |
| Retail Division <sup>(1) (2)</sup> | 69,698    | 55,468  | 125,166 | 72,453    | 41,251  | 113,704 | 66,699    | 43,972  | 110,671 |
| Fuel Division <sup>(1)</sup>       | 737       | 4,622   | 5,359   | 625       | 3,926   | 4,551   |           |         |         |
| Health Division <sup>(1)</sup>     | 3,464     | 17,782  | 21,246  | 4,619     | 15,425  | 20,044  |           |         |         |
| Other <sup>(1)</sup>               | 11,790    | 17,438  | 29,228  | 11,070    | 13,077  | 24,147  | 10,896    | 11,802  | 22,698  |
| Total                              | 119,699   | 146,445 | 266,144 | 122,624   | 123,534 | 246,158 | 111,816   | 104,924 | 216,740 |

(1) Includes employees of third-party distributors whom we do not consider to be our employees, amounting to 8,745, 9,859 and 8,681 in 2016, 2015 and 2014.

(2) Includes non-management store employees, whom we do not consider to be our employees, amounting to 58,116, 55,464 and 51,185 in 2016, 2015 and 2014. As of December 31, 2016, our subsidiaries had entered 645 collective bargaining or similar agreements with personnel employed at our operations. Each of the labor unions in Mexico is associated with one of eight different national Mexican labor organizations. In general, we have a good relationship with the labor unions throughout our operations, but we also operate in complex labor environments, such as Venezuela and Argentina. The agreements applicable to our Mexican operations generally have an indefinite term and provide for an annual salary review and for review of other terms and conditions, such as fringe benefits, every two years.

The table below sets forth the number of collective bargaining agreements and unions for our employees:

**Collective Bargaining Labor Agreements between****Sub-holding Companies and Unions****As of December 31, 2016**

| Sub-holding Company           | 2016                             |              |
|-------------------------------|----------------------------------|--------------|
|                               | Collective Bargaining Agreements | Labor Unions |
| Coca-Cola FEMSA               | 245                              | 105          |
| FEMSA Comercio <sup>(1)</sup> | 156                              | 12           |
| Others                        | 244                              | 103          |
| Total                         | 645                              | 220          |

- (1) Does not include non-management store employees, who are employed directly by each individual store.

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The following table identifies each owner of more than 5% of any class of our shares known to the company as of March 16, 2017. Except as described below, we are not aware of any holder of more than 5% of any class of our shares. Only the Series B Shares have full voting rights under our bylaws.

**Ownership of Capital Stock as of March 16, 2017**

| Shareholder  | Series B Shares <sup>(1)</sup> |                        | Series D-B Shares <sup>(2)</sup> |                        | Series D-L Shares <sup>(3)</sup> |                     | Total Shares<br>of FEMSA<br>Capital<br>Stock |
|--|--------------------------------|------------------------|----------------------------------|------------------------|----------------------------------|---------------------|--|
|  | Shares Owned                   | Percent<br>of<br>Class | Shares Owned                     | Percent<br>of<br>Class | Shares Owned                     | Percent<br>of Class |  |
| Technical Committee and Trust Participants under the Voting Trust <sup>(4)</sup> | 6,922,159,485                  | 74.86%                 |                                  |                        |                                  |                     | 38.69%                                       |
| William H. Gates III <sup>(5)</sup>  | 278,873,490                    | 3.02%                  | 557,746,980                      | 12.9%                  | 557,746,980                      | 12.9%               | 7.79%  |
| Aberdeen Asset Management PLC <sup>(6)</sup>                                     | 181,021,410                    | 1.96%                  | 355,213,820                      | 8.38%                  | 355,213,820                      | 8.38%               | 5.06%  |

(1) As of March 16, 2017, there were 2,161,177,770 Series B Shares outstanding.

(2) As of March 16, 2017, there were 4,322,355,540 Series D-B Shares outstanding.

(3) As of March 16, 2017, there were 4,322,355,540 Series D-L Shares outstanding.

(4) As a consequence of the voting trust's internal procedures, the following trust participants are deemed to have beneficial ownership with shared voting power over those same deposited shares: BBVA Bancomer, S.A., as Trustee under Trust No. F/25078-7 (controlled by the estate of Max Michel Suberville), J.P. Morgan Trust Company (New Zealand) Limited as Trustee under a trust controlled by Paulina Garza Lagüera Gonda, Max Brittingham, Maia Brittingham, Bárbara Garza Lagüera Gonda, Bárbara Braniff Garza Lagüera, Eugenia Braniff Garza Lagüera, Lorenza Braniff Garza Lagüera, Mariana Garza Lagüera Gonda, Paula Treviño Garza Lagüera, Inés Treviño Garza Lagüera, Eva María Garza Lagüera Gonda, Eugenio Fernández Garza Lagüera, Daniela Fernández Garza Lagüera, Eva María Fernández Garza Lagüera, José Antonio Fernández Garza Lagüera, Eva Gonda Rivera, Inversiones Bursátiles Industriales, S.A. de C.V. (controlled by the Garza Lagüera family), Consuelo Garza Lagüera de Garza, Alfonso Garza Garza, Juan Pablo Garza García, Alfonso Garza García, María José Garza García, Eugenia María Garza García, Patricio Garza Garza, Viviana Garza Zambrano, Patricio Garza Zambrano, Marigel Garza Zambrano, Ana Isabel Garza Zambrano, Juan Carlos Garza Garza, José Miguel Garza Celada, Gabriel Eugenio Garza Celada, Ana Cristina Garza Celada, Juan Carlos Garza Celada, Eduardo Garza Garza, Eduardo Garza Páez, Balbina Consuelo Garza Páez, Eugenio Andrés Garza Páez, Eugenio Garza Garza, Camila Garza Garza, Ana Sofía Garza Garza, Celina Garza Garza, Marcela Garza Garza, Alepage, S.A. (controlled by Consuelo Garza Lagüera de Garza), Alberto Bailleres González, María Teresa Gual Aspe de Bailleres, Corbal, S.A. de C.V. (controlled by Alberto Bailleres González), BBVA Bancomer, S.A., as Trustee under Trust No. F/29490-0 (controlled by Alberto, Susana and Cecilia Bailleres), Magdalena Michel de David, the estate of Max Michel Suberville, Max David Michel, Juan David Michel, Monique David de VanLathem, Renee Michel de Guichard, Magdalena Guichard Michel, Rene Guichard Michel, Miguel Guichard Michel, Graciano Guichard Michel, Juan Guichard Michel, BBVA Bancomer, S.A., as Trustee under Trust No. F/710004 (controlled by Magdalena Michel de David), BBVA Bancomer, S.A., as Trustee under Trust No. F/700005 (controlled by Renee Michel de Guichard), Franca Servicios, S.A. de C.V. (controlled by the Calderón Rojas family), and BBVA Bancomer, S.A. as Trustee under Trust No. F/29013-0 (controlled by the Calderón Rojas family).

(5) Includes aggregate shares beneficially owned by Cascade Investments, LLC, over which William H. Gates III has sole voting and dispositive power.

(6) As reported on Schedule 13G filed on February 6, 2017 by Aberdeen Asset Management PLC/UK.

As of March 31, 2017, there were 42 holders of record of ADSs in the United States, which represented approximately 51.2% of our outstanding BD Units. Since a substantial number of ADSs are held in the name of nominees of the beneficial owners, including the nominee of The Depository Trust Company, the number of beneficial owners of ADSs is substantially greater than the number of record holders of these securities.

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### **Related-Party Transactions**

#### **Voting Trust**

The trust participants, who are our principal shareholders, agreed on May 6, 1998 to deposit a majority of their shares, which we refer to as the trust assets, of FEMSA into the voting trust, and later entered into an amended agreement on August 8, 2005, following the substitution by Banco Invex, S.A. as trustee to the voting trust, which agreement was subsequently renewed on March 15, 2013. The primary purpose of the voting trust is to permit the trust assets to be voted as a block, in accordance with the instructions of the technical committee of the voting trust. The trust participants are separated into seven trust groups and the technical committee comprises one representative appointed by each trust group. The number of B Units corresponding with each trust group (the proportional share of the shares deposited in the trust of such group) determines the number of votes that each trust representative has on the technical committee. Most matters are decided by a simple majority of the trust assets.

The trust participants agreed to certain transfer restrictions with respect to the trust assets. The trust is irrevocable, for a term that will conclude on January 17, 2020 (subject to additional five-year renewal terms), during which time, trust assets may be transferred by trust participants to spouses and immediate family members and, subject to certain conditions, to companies that are 100% owned by trust participants, which we refer to as the permitted transferees, provided in all cases that the transferee agrees to be bound by the terms of the voting trust. In the event that a trust participant wishes to sell part of its trust assets to someone other than a permitted transferee, the other trust participants have a right of first refusal to purchase the trust assets that the trust participant wishes to sell. If none of the trust participants elects to acquire the trust assets from the selling trust participant, the technical committee will have a right to nominate (subject to the approval of technical committee members representing 75% of the trust assets, excluding trust assets that are the subject of the sale) a purchaser for such trust assets. In the event that none of the trust participants or a nominated purchaser elects to acquire trust assets, the selling trust participant will have the right to sell the trust assets to a third-party on the same terms and conditions that were offered to the trust participants. Acquirors of trust assets will only be permitted to become parties to the voting trust upon the affirmative vote by the technical committee of at least 75% of the trust shares, which must include trust shares represented by at least three trust group representatives. In the event that a trust participant holding a majority of the trust assets elects to sell its trust assets, the other trust participants have tag along rights that will enable them to sell their trust assets to the acquiror of the selling trust participant's trust assets.

Because of their ownership of a majority of the Series B Shares, the trust participants may be deemed to control our company. Other than as a result of their ownership of the Series B Shares, the trust participants do not have any voting rights that are different from those of other shareholders.

#### **Interest of Management in Certain Transactions**

The following is a summary of: (i) the main transactions we have entered into with entities for which members of our board of directors or management serve as a member of the board of directors or management, (ii) the main transactions our subsidiaries have entered into with entities for which members of their board of directors or management serve as a members of the board of directors or management, and (iii) the main transactions our subsidiaries have entered into with related entities. Each of these transactions was entered into in the ordinary course of business, and we believe each is on terms comparable to those that could be obtained in arm's length negotiations with unaffiliated third parties. Under our bylaws, transactions entered with related parties not in the ordinary course of business are subject to the approval of our board of directors, subject to the prior opinion of the corporate practices committee.

José Antonio Fernández Carbajal, our Executive Chairman of the Board, serves as a member of the Heineken Holding Board and the Heineken Supervisory Board. Javier Astaburuaga Sanjines, our Vice President of Corporate Development, also serves on the Heineken Supervisory Board. We made purchases of beer and raw materials in the ordinary course of business from the Heineken Group in the amount of Ps. 15,133 million in 2014, Ps. 14,467 million in 2015 and Ps. 16,436 million in 2016. We also supplied logistics and administrative services to subsidiaries of Heineken for a total of Ps. 3,544 million in 2014, Ps. 3,396 million in 2015 and Ps. 3,153 in 2016. As of the end of December 31, 2016, 2015 and 2014, our net balance due to Heineken amounted to Ps. 1,836, Ps. 849 and Ps. 1,597 million, respectively.

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We, along with certain of our subsidiaries, regularly engage in financing and insurance coverage transactions, including entering into loans and bond offerings in the local capital markets, with subsidiaries of Grupo Financiero BBVA Bancomer, a financial services holding company of which Alberto Bailleres González, Ricardo Guajardo Touché, Carlos Salazar Lomelín and Arturo Fernández Pérez who are also directors or alternate directors of FEMSA or Coca-Cola FEMSA, are directors, and for which José Manuel Canal Hernando, also a director of FEMSA and Coca-Cola FEMSA, serves as Statutory Auditor. We made interest expense payments and fees paid to Grupo Financiero BBVA Bancomer in respect of these transactions of Ps. 26 million, Ps. 68 million and Ps. 99 million as of December 31, 2016, 2015 and 2014, respectively. The total amount due to Grupo Financiero BBVA Bancomer as of the end of December 31, 2016, 2015 and 2014 was Ps. 395, Ps. 292 million and Ps. 149 million, respectively, and we also had a receivable balance with Grupo Financiero BBVA Bancomer of Ps. 2,535 million, Ps. 2,683 million and Ps. 4,083 million, respectively, as of December 31, 2016, 2015 and 2014.

Until 2014, we maintained an insurance policy covering medical expenses for executives issued by GNP, an insurance company of which Alberto Bailleres González, director of FEMSA, Arturo Fernández Pérez, alternate director of FEMSA, and Alejandro Bailleres Gual, alternate director of Coca-Cola FEMSA, are directors. Since 2015, we only maintain an insurance policy for our utility cars, the aggregate amount of premiums paid under these policies was approximately Ps. 63 million, Ps. 58 million and Ps. 140 million in 2016, 2015 and 2014, respectively.

We, along with certain of our subsidiaries, spent Ps. 193 million, Ps. 175 million and Ps. 158 million in the ordinary course of business in 2016, 2015 and 2014, respectively, in publicity and advertisement purchased from Televisa, a media corporation in which our Executive Chairman of the Board, José Antonio Fernández Carbajal, two of our directors, Alberto Bailleres González and Alfonso de Angoitia Noriega, our alternate director, Enrique F. Senior Hernández, and Herbert A. Allen III, alternate director of Coca-Cola FEMSA, serve as directors.

FEMSA Comercio, in its ordinary course of business, purchased Ps. 4,184 million, Ps. 3,740 million and Ps. 3,674 million in 2016, 2015 and 2014, respectively, in baked goods and snacks for its stores from subsidiaries of Bimbo, of which Ricardo Guajardo Touché, one of FEMSA's directors, Arturo Fernández Pérez, one of FEMSA's alternate directors and Daniel Servitje Montull, one of Coca-Cola FEMSA's directors, are directors. FEMSA Comercio also purchased Ps. 871 million, 947 million and Ps. 780 million in 2016, 2015 and 2014, respectively, in juices from subsidiaries of Jugos del Valle.

José Antonio Fernández Carbajal, Eva Maria Garza Lagüera Gonda, Mariana Garza Lagüera Gonda, Ricardo Guajardo Touché, Alfonso Garza, Alfonso González Migoya, Ricardo Saldívar Escajadillo and Armando Garza Sada, who are directors or alternate directors of FEMSA or Coca-Cola FEMSA, are also members of the board of directors of ITESM, which is a prestigious university system with headquarters in Monterrey, Mexico that routinely receives donations from FEMSA and its subsidiaries. For the years ended December 31, 2016 and 2015, donations to ITESM amounted to Ps. 1 million and Ps. 42 million, respectively.

José Antonio Fernández Carbajal, Carlos Salazar Lomelín, Alfonso Garza, Federico Reyes Garcia, Javier Astaburuaga Sanjines, Miguel Eduardo Padilla Silva, Genaro Borrego Estrada, José González Ornelas, John Anthony Santa Maria Otazua, Charles H. McTier and Daniel Alberto Rodríguez Cofré, who are directors, alternate directors or senior officers of FEMSA or Coca-Cola FEMSA, are also members of the board of directors of Fundación FEMSA, A.C., which is a social investment instrument for communities in Latin America. For the years ended December 31, 2016 and 2015, donations to Fundación FEMSA, A.C. amounted to Ps. 62 million and Ps. 30 million, respectively. Coca-Cola FEMSA, in its ordinary course of business, purchased Ps. 2,429 million, Ps. 2,135 million, Ps. 1,803 million in 2016, 2015 and 2014, respectively, in juices from subsidiaries of Jugos del Valle. In October 2011, Coca-Cola FEMSA executed certain agreements with affiliates of Grupo Tampico to acquire specific products and services, such as plastic cases, certain trucks and car brands, as well as auto parts, exclusively for the territories of Grupo Tampico. The agreements provide for certain preferences to be elected as suppliers in Coca-Cola FEMSA's suppliers bidding processes. Herman Harris Fleishman Kahn, chairman of the board of directors of Grupo Tampico, is a member of the board of directors of Coca-Cola FEMSA, and Robert A. Fleishman Cahn, chief executive officer of Grupo Tampico, is an alternate member of the board of directors of Coca-Cola FEMSA.

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**Business Transactions between Coca-Cola FEMSA, FEMSA and The Coca-Cola Company**

Coca-Cola FEMSA regularly engages in transactions with The Coca-Cola Company and its affiliates. Coca-Cola FEMSA purchases all of its concentrate requirements for *Coca-Cola* trademark beverages from The Coca-Cola Company. Total expenses charged to Coca-Cola FEMSA by The Coca-Cola Company for concentrates were approximately Ps.38,146 million, Ps.27,330 million and Ps.28,084 million in 2016, 2015 and 2014, respectively. Coca-Cola FEMSA and The Coca-Cola Company pay and reimburse each other for marketing expenditures. The Coca-Cola Company also contributes to Coca-Cola FEMSA's coolers, bottles and case investment program. Coca-Cola FEMSA received contributions to its marketing expenses of Ps.4,518 million, Ps.3,749 million and Ps.4,118 million in 2016, 2015 and 2014, respectively.

In December 2007 and May 2008, Coca-Cola FEMSA sold most of its proprietary brands to The Coca-Cola Company. The proprietary brands are licensed back to Coca-Cola FEMSA by The Coca-Cola Company pursuant to its bottler agreements. The December 2007 transaction was valued at US\$48 million and the May 2008 transaction was valued at US\$16 million. Revenues in prior years from the sale of proprietary brands were deferred and amortized against the related costs of future sales over the estimated sales period.

In Argentina, Coca-Cola FEMSA purchases plastic preforms, as well as returnable plastic bottles, at competitive prices from Andina Empaques S.A., a local subsidiary of Embotelladora Andina S.A., a bottler of The Coca-Cola Company with operations in Argentina, Chile, Brazil and Paraguay in which The Coca-Cola Company has a substantial interest, and other local suppliers. Coca-Cola FEMSA also acquires plastic preforms from Alpla Avellaneda S.A. and other suppliers.

In November 2007, Coca-Cola FEMSA acquired together with The Coca-Cola Company 100.0% of the shares of capital stock of Jugos del Valle. Jugos del Valle sells fruit juice-based beverages and fruit derivatives. The business of Jugos del Valle in the United States was acquired and sold by The Coca-Cola Company. In 2008, Coca-Cola FEMSA, The Coca-Cola Company and all Mexican and Brazilian *Coca-Cola* bottlers entered into a joint business for the Mexican and Brazilian operations, respectively, of Jugos del Valle. As of April 7, 2017, Coca-Cola FEMSA held an interest of 26.3% in the Mexican joint business. In August 2010, Coca-Cola FEMSA acquired from The Coca-Cola Company, along with other Brazilian Coca-Cola bottlers, Leão Alimentos, manufacturer and distributor of the *Matte Leão* tea brand. In January 2013, our Brazilian joint business of Jugos del Valle merged with Leão Alimentos. As of April 7, 2017, Coca-Cola FEMSA held a 27.7% indirect interest in the *Matte Leão* business in Brazil.

In February 2009, Coca-Cola FEMSA acquired together with The Coca-Cola Company the *Brisa* bottled water business in Colombia from Bavaria, S.A. a subsidiary of SABMiller plc. Coca-Cola FEMSA acquired the production assets and the distribution territory, and The Coca-Cola Company acquired the *Brisa* brand. Coca-Cola FEMSA and The Coca-Cola Company equally shared in paying the purchase price of US\$92 million. Following a transition period, in June 2009, Coca-Cola FEMSA started to sell and distribute the *Brisa* portfolio of products in Colombia.

In May 2009, Coca-Cola FEMSA entered into an agreement to begin selling the *Crystal* trademark water products in Brazil jointly with The Coca-Cola Company.

In March 2011, Coca-Cola FEMSA acquired together with The Coca-Cola Company, through Compañía Panameña de Bebidas, S.A.P.I. de C.V., Estrella Azul, a Panamanian conglomerate that participates in the dairy and juice-based beverage categories in Panama. Coca-Cola FEMSA continues to develop this business with The Coca-Cola Company.

In August 2012, Coca-Cola FEMSA acquired, through Jugos del Valle, an indirect participation in Santa Clara, a producer of milk and dairy products in Mexico. As of April 7, 2017, Coca-Cola FEMSA owned an indirect participation of 26.3% in Santa Clara.

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In January 2013, as part of Coca-Cola FEMSA's efforts to expand its geographic reach, Coca-Cola FEMSA acquired a 51.0% non-controlling majority stake in KOF Philippines from The Coca-Cola Company. Coca-Cola FEMSA has an option to acquire the remaining 49.0% stake in KOF Philippines at any time during the seven years following the closing date. Coca-Cola FEMSA also has a put option to sell its ownership in KOF Philippines to The Coca-Cola Company commencing on the fifth anniversary of the closing date and ending on the sixth anniversary of the closing date. Since January 25, 2017, Coca-Cola FEMSA controls KOF Philippines as all decisions relating to the day-to-day operation and management of KOF Philippines's business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company. The Coca-Cola Company has the right to appoint (and may remove) KOF Philippines's chief financial officer. Coca-Cola FEMSA has the right to appoint (and may remove) the chief executive officer and all other officers of KOF Philippines.

In March 2017, Coca-Cola FEMSA acquired, through Jugos del Valle, an indirect participation in the Mexican AdeS soy-based beverage business, through Coca-Cola FEMSA's Brazilian and Argentine subsidiaries, an indirect participation in the Brazilian and Argentine AdeS soy-based beverage businesses, and through Coca-Cola FEMSA's Colombian subsidiary, a direct participation in the Colombian AdeS soy-based beverage business. As a result of this acquisition, Coca-Cola FEMSA has exclusive distribution rights of AdeS soy-based beverages in these territories.

**ITEM 8. FINANCIAL INFORMATION****Consolidated Financial Statements**

See pages F-1 through F-117, incorporated herein by reference.

**Dividend Policy**

For a discussion of our dividend policy, See **Item 3. Key Information Dividends** and **Item 10. Additional Information**.

**Legal Proceedings**

We are party to various legal proceedings in the ordinary course of business. Other than as disclosed in this annual report, we are not currently involved in any litigation or arbitration proceeding, including any proceeding that is pending or threatened of which we are aware, which we believe will have, or has had, a material adverse effect on our company. Other legal proceedings that are pending against or involve us and our subsidiaries are incidental to the conduct of our and their business. We believe that the ultimate resolution of such other proceedings individually or on an aggregate basis will not have a material adverse effect on our consolidated financial condition or results.

**Coca-Cola FEMSA****Mexico**

**Antitrust Matters.** During 2000, the COFECE, motivated by complaints filed by PepsiCo and certain of its bottlers in Mexico, began an investigation of The Coca-Cola Company Export Corporation and the Mexican Coca-Cola bottlers for alleged monopolistic practices through exclusivity arrangements with certain retailers. Nine of Coca-Cola FEMSA's Mexican subsidiaries, including those acquired through its merger with Grupo Tampico, Grupo CIMSA and Grupo Fomento Queretano, were involved in this matter. After the corresponding legal proceedings in 2008, a Mexican Federal Court rendered an adverse judgment against three of Coca-Cola FEMSA's nine Mexican subsidiaries involved in the proceedings, upholding a fine of approximately Ps.10.5 million imposed by COFECE on each of the three subsidiaries and ordering the immediate suspension of such practices of alleged exclusivity arrangements and conditional dealings. On August 7, 2012, a Federal Court dismissed and denied an appeal that Coca-Cola FEMSA filed on behalf of one of its subsidiaries after the merger with Grupo Fomento Queretano, which had received an adverse judgment. Coca-Cola FEMSA filed a motion for reconsideration on September 12, 2012, which was resolved on March 22, 2013 confirming the Ps.10.5 million fine imposed by the COFECE. With respect to the complaints against the remaining six subsidiaries, a favorable resolution was issued in the Mexican Federal Courts and, consequently, the COFECE withdrew the fines and ruled in favor of six of our subsidiaries on the grounds of insufficient evidence to prove individual and specific liability in the alleged antitrust violations.





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In addition, among the companies involved in the 2000 complaint filed by PepsiCo and other bottlers in Mexico, were some of Coca-Cola FEMSA's less significant subsidiaries acquired with the Grupo Yoli merger. On June 30, 2005, the COFECE imposed a fine on one of our subsidiaries for approximately Ps.10.5 million. A motion for reconsideration on this matter was filed on September 21, 2005, which was resolved by the COFECE confirming the original resolution on December 1, 2005. A constitutional challenge (*amparo*) was filed against said resolution and a Federal Court issued a favorable resolution in our benefit. Both the COFECE and PepsiCo filed appeals against said resolution and a Circuit Court in Acapulco, Guerrero resolved to request the COFECE to issue a new resolution regarding the Ps.10.5 million fine. COFECE then fined our subsidiary again, for the same amount. A new *amparo* claim was filed against said resolution.

On May 17, 2012, such new *amparo* claim was resolved, again in favor of one of Coca-Cola FEMSA's subsidiaries, requesting the COFECE to recalculate the amount of the fine. The COFECE maintained the amount of the fine in a new resolution which Coca-Cola FEMSA challenged through a new *amparo* claim filed on July 31, 2013 before a District Judge in Acapulco, Guerrero and is still awaiting final resolution.

In June and July 2010, Ajemex, S.A. de C.V., or Ajemex, filed two complaints with the COFECE against The Coca-Cola Export Corporation and certain *Coca-Cola* bottlers, including Coca-Cola FEMSA, alleging the continued performance of monopolistic practices in breach of COFECE's resolution dated June 30, 2005. On January 23, 2015, The Coca-Cola Export Corporation and the *Coca-Cola* bottlers provided evidence to COFECE against these allegations. The COFECE ruled upon these proceedings in favor of The Coca-Cola Export Corporation and the *Coca-Cola* bottlers. On April 6, 2015, Ajemex filed an *amparo* claim against said resolution, which was dismissed and denied by a Federal District Judge. No further action was pursued by Ajemex, and the resolution became final.

## **Significant Changes**

Except as disclosed under "Recent Developments" in Item 5, no significant changes have occurred since the date of the annual financial statements included in this annual report.

## **ITEM 9. THE OFFER AND LISTING**

### **Description of Securities**

We have three series of capital stock, each with no par value:

Series B Shares ( Series B Shares );

Series D-B Shares ( Series D-B Shares ); and

Series D-L Shares ( Series D-L Shares ).

Series B Shares have full voting rights, and Series D-B and D-L Shares have limited voting rights. The shares of our company are not separable and may be transferred only in the following forms:

B Units, consisting of five Series B Shares; and

BD Units, consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares.

At our AGM held on March 29, 2007, our shareholders approved a three-for-one stock split in respect all of our outstanding capital stock, which became effective in May 2007. Following the stock split, our total capital stock consists of 2,161,177,770 BD Units and 1,417,048,500 B Units. Our stock split also resulted in a three-for-one stock split of our ADSs. The stock-split was conducted on a pro-rata basis in respect of all holders of our shares and all ADS holders of record as of May 25, 2007, and the ratio of voting and non-voting shares was maintained, thereby preserving our ownership structure as it was prior to the stock-split.



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On April 22, 2008, FEMSA shareholders approved a proposal to amend our bylaws in order to preserve the unit structure for our shares that has been in place since May 1998, and to maintain our existing share structure beyond May 11, 2008, absent further shareholder action.

Previously, our bylaws provided that on May 11, 2008, each Series D-B Share would automatically convert into one Series B Share with full voting rights, and each Series D-L Share would automatically convert into one Series L Share with limited voting rights. At that time:

the BD Units and the B Units would cease to exist and the underlying Series B Shares and Series L Shares would be separate; and

the Series B Shares and Series L Shares would be entitled to share equally in any dividend, and the dividend preferences of the Series D-B Shares and Series D-L Shares of 125% of any amount distributed in respect of each Series B Share existing prior to May 11, 2008, would be terminated.

However, following the April 22, 2008 shareholder approvals, these changes will no longer occur and instead our share and unit structure will remain unchanged, absent shareholder action, as follows:

the BD Units and the B Units will continue to exist; and

the dividend preferences of the Series D-B Shares and Series D-L Shares of 125% of any amount distributed in respect of each Series B Share will continue to exist.

The following table sets forth information regarding our capital stock as of March 16, 2017:

| Class                            | Number         | Percentage of Capital | Percentage of Full Voting Rights |
|----------------------------------|----------------|-----------------------|----------------------------------|
| Series B Shares (no par value)   | 9,246,420,270  | 51.68%                | 100.00%                          |
| Series D-B Shares (no par value) | 4,322,355,540  | 24.16%                | 0.00%                            |
| Series D-L Shares (no par value) | 4,322,355,540  | 24.16%                | 0.00%                            |
| Total Shares                     | 17,891,131,350 | 100.00%               | 100.00%                          |
| <b>Units</b>                     |                |                       |                                  |
| BD Units                         | 2,161,177,770  | 60.40%                | 23.47%                           |
| B Units                          | 1,417,048,500  | 39.60%                | 76.63%                           |
| Total Units                      | 3,578,226,270  | 100.00%               | 100.00%                          |

**Trading Markets**

Since May 11, 1998, ADSs representing BD Units have been listed on the NYSE, and the BD Units and the B Units have been listed on the Mexican Stock Exchange. Each ADS represents 10 BD Units deposited under the deposit agreement with the ADS depository. As of March 31, 2017, approximately 51.2% of BD Units traded in the form of ADSs.

The NYSE trading symbol for the ADSs is **FMX** and the Mexican Stock Exchange trading symbols are **FEMSA UBD** for the BD Units and **FEMSA UB** for the B Units.

Fluctuations in the exchange rate between the Mexican peso and the U.S. dollar have affected the U.S. dollar equivalent of the Mexican peso price of our shares on the Mexican Stock Exchange and, consequently, have also affected the market price of our ADSs. See **Item 3. Key Information Exchange Rate Information**.

**Trading on the Mexican Stock Exchange**

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The Mexican Stock Exchange, located in Mexico City, is currently the only stock exchange in Mexico. Founded in 1907, it is organized as a *sociedad anónima bursátil de capital variable*. Trading on the Mexican Stock Exchange takes place principally through automated systems and is open between the hours of 9:30 a.m. and 4:00 p.m.

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Eastern Time, each business day. Trades in securities listed on the Mexican Stock Exchange can also be effected off the exchange. The Mexican Stock Exchange operates a system of automatic suspension of trading in shares of a particular issuer as a means of controlling excessive price volatility, but under current regulations this system does not apply to securities such as the BD Units that are directly or indirectly (for example, in the form of ADSs) quoted on a stock exchange (including for these purposes the NYSE) outside Mexico.

Settlement is effected three business days after a share transaction on the Mexican Stock Exchange. Deferred settlement, even by mutual agreement, is not permitted without the approval of the *Comisión Nacional Bancaria y de Valores*, or CNBV. Most securities traded on the Mexican Stock Exchange, including ours, are on deposit with *S.D. Indeval Institución para el Depósito de Valores S.A. de C.V.*, which we refer to as Indeval, a privately owned securities depository that acts as a clearinghouse for Mexican Stock Exchange transactions.

**Price History**

The following tables set forth, for the periods indicated, the reported high, low and closing sale prices and the average daily trading volumes for the B Units and BD Units on the Mexican Stock Exchange and the reported high, low and closing sale prices and the average daily trading volumes for the ADSs on the NYSE.

|                | B Units <sup>(1)</sup> |                     |                    | Close<br>US\$ <sup>(4)</sup> | Average Daily<br>Trading Volume<br>(Units) |                      |
|----------------|------------------------|---------------------|--------------------|------------------------------|--|----------------------|
|                | Nominal pesos          | High <sup>(2)</sup> | Low <sup>(2)</sup> |                              |  | Close <sup>(3)</sup> |
| <b>2012</b>    |                        | 99.00               | 75.00              | 99.00                        | 7.64                                       | 6,004                |
| <b>2013</b>    |                        | 126.00              | 99.00              | 106.00                       | 8.09                                       | 47,136               |
| <b>2014</b>    |                        | 125.00              | 103.00             | 122.50                       | 8.31                                       | 2,007                |
| <b>2015</b>    |                        |                     |                    |                              |  |                      |
| First Quarter  |                        | 131.50              | 121.00             | 131.49                       | 8.63                                       | 1,775                |
| Second Quarter |                        | 142.66              | 133.00             | 139.41                       | 8.89                                       | 10,134               |
| Third Quarter  |                        | 136.50              | 135.00             | 136.50                       | 8.08                                       | 1,876                |
| Fourth Quarter |                        | 154.00              | 137.91             | 145.80                       | 8.48                                       | 2,759                |
| <b>2016</b>    |                        |                     |                    |                              |  |                      |
| First Quarter  |                        | 150.00              | 139.50             | 147.00                       | 8.54                                       | 3,020                |
| Second Quarter |                        | 152.00              | 147.00             | 147.00                       | 7.95                                       | 511                  |
| Third Quarter  |                        | 150.00              | 141.00             | 147.00                       | 7.60                                       | 1,654                |
| Fourth Quarter |                        | 155.00              | 147.00             | 149.95                       | 7.27                                       | 447                  |
| October        |                        | 148.00              | 147.00             | 147.00                       | 7.82                                       | 312                  |
| November       |                        | 155.00              | 147.00             | 155.00                       | 7.58                                       | 378                  |
| December       |                        | 153.70              | 147.00             | 149.95                       | 7.27                                       | 2,364                |
| <b>2017</b>    |                        |                     |                    |                              |  |                      |
| January        |                        | 145.45              | 140.00             | 140.00                       | 6.72                                       | 1,662                |
| February       |                        | 138.00              | 135.51             | 137.00                       | 6.85                                       | 970                  |
| March          |                        | 142.50              | 137.00             | 142.50                       | 7.57                                       | 1,451                |
| First Quarter  |                        | 145.45              | 135.51             | 142.50                       | 7.57                                       | 1,007                |

(1) The prices and average daily trading volume for the B Units were taken from Bloomberg and reflect our 3:1 stock split, which was effective May 25, 2007.

(2) High and low closing prices for the periods presented.

(3) Closing price on the last day of the periods presented.

(4) Represents the translation from Mexican pesos to U.S. dollars of the closing price of the B Units on the last day of the periods presented based on the noon buying rate for the purchase of U.S. dollars, as reported by the U.S. Federal Reserve Board using the period-end exchange rate.

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|                | BD Units <sup>(1)</sup> |                    |                      |                           | Average Daily<br>Trading Volume<br>(Units) |
|----------------|-------------------------|--------------------|----------------------|---------------------------|--|
|                | Nominal pesos           |                    |                      | Close US\$ <sup>(4)</sup> |  |
|                | High <sup>(2)</sup>     | Low <sup>(2)</sup> | Close <sup>(3)</sup> |                           |  |
| <b>2012</b>    | 130.64                  | 88.64              | 129.31               | 9.97                      | 2,280,878                                  |
| <b>2013</b>    | 151.72                  | 117.05             | 126.40               | 9.65                      | 2,997,406                                  |
| <b>2014</b>    | 134.71                  | 109.62             | 130.88               | 8.87                      | 2,626,599                                  |
| <b>2015</b>    |                         |                    |                      |                           |  |
| First Quarter  | 143.54                  | 123.68             | 143.11               | 9.39                      | 2,560,379                                  |
| Second Quarter | 147.73                  | 136.36             | 139.97               | 8.92                      | 2,598,477                                  |
| Third Quarter  | 154.36                  | 140.26             | 151.27               | 8.95                      | 2,297,879                                  |
| Fourth Quarter | 168.78                  | 149.68             | 161.63               | 9.40                      | 2,242,941                                  |
| <b>2016</b>    |                         |                    |                      |                           |  |
| First Quarter  | 176.27                  | 152.61             | 166.80               | 9.69                      | 3,160,365                                  |
| Second Quarter | 175.27                  | 158.54             | 169.18               | 9.15                      | 2,616,829                                  |
| Third Quarter  | 182.26                  | 165.55             | 178.75               | 9.24                      | 2,740,262                                  |
| Fourth Quarter | 183.34                  | 154.07             | 157.67               | 7.65                      | 3,287,989                                  |
| October        | 183.34                  | 178.55             | 181.30               | 9.65                      | 2,325,085                                  |
| November       | 177.93                  | 160.27             | 160.91               | 7.87                      | 4,591,266                                  |
| December       | 161.95                  | 154.07             | 157.67               | 7.65                      | 3,009,676                                  |
| <b>2017</b>    |                         |                    |                      |                           |  |
| January        | 165.60                  | 156.86             | 156.86               | 7.53                      | 2,695,523                                  |
| February       | 164.47                  | 158.54             | 161.82               | 8.09                      | 2,452,659                                  |
| March          | 173.99                  | 164.42             | 166.04               | 8.82                      | 2,624,651                                  |
| First Quarter  | 173.99                  | 156.86             | 166.04               | 8.82                      | 2,557,817                                  |

- (1) The prices and average daily trading volume for the BD Units were taken from Bloomberg and reflect our 3:1 stock split, which was effective May 25, 2007.  
(2) High and low closing prices for the periods presented.  
(3) Closing price on the last day of the periods presented.  
(4) Represents the translation from Mexican pesos to U.S. dollars of the closing price of the BD Units on the last day of the periods presented based on the noon buying rate for the purchase of U.S. dollars, as reported by the U.S. Federal Reserve Board using the period-end exchange rate.

|                | ADSs <sup>(1)</sup> |                    |                      | Average Daily<br>Trading Volume<br>(ADSs) |
|----------------|---------------------|--------------------|----------------------|---|
|                | U.S. dollars        |                    |                      |   |
|                | High <sup>(2)</sup> | Low <sup>(2)</sup> | Close <sup>(3)</sup> |   |
| <b>2012</b>    | 101.70              | 67.47              | 100.70               | 535,718                                   |
| <b>2013</b>    | 124.96              | 88.66              | 97.87                | 604,552                                   |
| <b>2014</b>    | 100.26              | 81.94              | 88.03                | 417,239                                   |
| <b>2015</b>    |                     |                    |                      |   |
| First Quarter  | 95.74               | 82.97              | 93.50                | 426,634                                   |
| Second Quarter | 98.88               | 87.52              | 89.09                | 338,531                                   |
| Third Quarter  | 93.83               | 81.90              | 89.25                | 373,119                                   |
| Fourth Quarter | 101.96              | 88.43              | 92.35                | 377,262                                   |
| <b>2016</b>    |                     |                    |                      |   |
| First Quarter  | 96.60               | 85.25              | 96.31                | 481,591                                   |
| Second Quarter | 97.38               | 87.28              | 92.49                | 467,101                                   |
| Third Quarter  | 100.51              | 85.88              | 92.04                | 609,880                                   |
| Fourth Quarter | 98.65               | 75.49              | 76.21                | 673,218                                   |
| October        | 98.65               | 93.23              | 95.67                | 585,366                                   |
| November       | 96.26               | 78.05              | 78.05                | 903,911                                   |
| December       | 79.32               | 75.49              | 76.21                | 530,377                                   |
| <b>2017</b>    |                     |                    |                      |   |
| January        | 78.64               | 74.19              | 75.23                | 581,632                                   |
| February       | 83.35               | 76.87              | 80.54                | 459,028                                   |
| March          | 91.51               | 82.15              | 88.52                | 419,261                                   |

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|               |       |       |       |         |
|---------------|-------|-------|-------|---------|
| First Quarter | 91.51 | 74.19 | 88.52 | 483,825 |
|---------------|-------|-------|-------|---------|

- (1) Each ADS comprises 10 BD Units. Prices and average daily trading volume were taken from Bloomberg and reflect our 3:1 stock split, which was effective May 25, 2007.
- (2) High and low closing prices for the periods presented.
- (3) Closing price on the last day of the periods presented.

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### **ITEM 10. ADDITIONAL INFORMATION**

#### **Bylaws**

The following is a summary of the material provisions of our bylaws and applicable Mexican law. Our bylaws were last amended on April 22, 2008. For a description of the provisions of our bylaws relating to our board of directors and executive officers, see **Item 6. Directors, Senior Management and Employees.**

#### ***Organization and Registry***

We are a *sociedad anónima bursátil de capital variable* organized in Mexico under the *Ley General de Sociedades Mercantiles* (Mexican General Corporations Law) and the Mexican Securities Law. We were incorporated in 1936 under the name Valores Industriales, S.A., as a *sociedad anónima*, and are currently named Fomento Económico Mexicano, S.A.B. de C.V. We are registered in the *Registro Público de la Propiedad y del Comercio* (Public Registry of Property and Commerce) of Monterrey, Nuevo León.

#### ***Voting Rights and Certain Minority Rights***

Each Series B Share entitles its holder to one vote at any of our ordinary or extraordinary general shareholders meetings. Our bylaws state that the board of directors must be composed of no more than 21 members, at least 25% of whom must be independent. Holders of Series B Shares are entitled to elect at least 11 members of our board of directors. Holders of Series D Shares are entitled to elect five members of our board of directors. Our bylaws also contemplate that, should a conversion of the Series D-L Shares to Series L Shares occur pursuant to the vote of our Series D-B and Series D-L shareholders at special and extraordinary shareholders meetings, the holders of Series D-L shares (who would become holders of newly-issued Series L Shares) will be entitled to elect two members of the board of directors. None of our shares has cumulative voting rights, which is a right not regulated under Mexican law.

Under our bylaws, the holders of Series D Shares are entitled to vote at extraordinary shareholders meetings called to consider any of the following limited matters: (1) the transformation from one form of corporate organization to another, other than from a company with variable capital stock to a company without variable capital stock or vice versa, (2) any merger in which we are not the surviving entity or with other entities whose principal corporate purposes are different from those of our company or our subsidiaries, (3) change of our jurisdiction of incorporation, (4) dissolution and liquidation and (5) the cancellation of the registration of the Series D Shares or Series L Shares in the Mexican Stock Exchange or in any other foreign stock market where listed, except in the case of the conversion of these shares as provided for in our bylaws.

Holders of Series D Shares are also entitled to vote on the matters that they are expressly authorized to vote on by the Mexican Securities Law and at any extraordinary shareholders meeting called to consider any of the following matters:

To approve a conversion of all of the outstanding Series D-B Shares and Series D-L Shares into Series B shares with full voting rights and Series L Shares with limited voting rights, respectively.

To agree to the unbundling of their share Units.

This conversion and/or unbundling of shares would become effective two years after the date on which the shareholders agreed to such conversion and/or unbundling.



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Under Mexican law, holders of shares of any series are entitled to vote as a class in a special meeting governed by the same rules that apply to extraordinary shareholders meetings on any action that would have an effect on the rights of holders of shares of such series. There are no procedures for determining whether a particular proposed shareholder action requires a class vote, and Mexican law does not provide extensive guidance on the criteria to be applied in making such a determination.

The Mexican Securities Law, the Mexican General Corporations Law and our bylaws provide for certain minority shareholder protections. These minority protections include provisions that permit:

holders of at least 10% of our outstanding capital stock entitled to vote, including in a limited or restricted manner, to require the chairman of the board of directors or of the Audit or Corporate Practices Committees to call a shareholders meeting;

holders of at least 5% of our outstanding capital stock, including limited or restricted vote, may bring an action for liabilities against our directors, the secretary of the board of directors or certain key officers;

holders of at least 10% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, at any shareholders meeting to request that resolutions with respect to any matter on which they considered they were not sufficiently informed be postponed;

holders of 20% of our outstanding capital stock to oppose any resolution adopted at a shareholders meeting in which they are entitled to vote, including limited or restricted vote, and file a petition for a court order to suspend the resolution temporarily within 15 days following the adjournment of the meeting at which the action was taken, provided that (1) the challenged resolution violates Mexican law or our bylaws, (2) the opposing shareholders neither attended the meeting nor voted in favor of the challenged resolution and (3) the opposing shareholders deliver a bond to the court to secure payment of any damages that we may suffer as a result of suspending the resolution in the event that the court ultimately rules against the opposing shareholder; and

holders of at least 10% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, to appoint one member of our board of directors and one alternate member of our board of directors.

## **Shareholders Meetings**

General shareholders meetings may be ordinary meetings or extraordinary meetings. Extraordinary meetings are those called to consider certain matters specified in Article 182 and 228 BIS of the Mexican General Corporations Law, Articles 53 and 108(II) of the Mexican Securities Law and in our bylaws. These matters include: amendments to our bylaws, liquidation, dissolution, merger, spin-off and transformation from one form of corporate organization to another, issuance of preferred stock and increases and reductions of the fixed portion of our capital stock. In addition, our bylaws require a general shareholders extraordinary meeting to consider the cancellation of the registration of shares with the Mexican Registry of Securities, or RNV or with other foreign stock exchanges on which our shares may be listed, the amortization of distributable earnings into capital stock, and an increase in our capital stock in terms of the Mexican Securities Law. General meetings called to consider all other matters, including increases or decreases affecting the variable portion of our capital stock, are ordinary meetings. An ordinary meeting must be held at least once each year within the first four months following the end of the preceding fiscal year. Holders of BD Units or B Units are entitled to attend all shareholders meetings of the Series B Shares and Series D Shares and to vote on matters that are subject to the vote of holders of the underlying shares.

The quorum for an ordinary shareholders meeting on first call is more than 50% of the Series B Shares, and action may be taken by a majority of the Series B Shares represented at the meeting. If a quorum is not available, a second or subsequent meeting may be called and held by whatever number of Series B Shares is represented at the meeting, at which meeting action may be taken by a majority of the Series B Shares that are represented at the meeting.

The quorum for an extraordinary shareholders meeting is at least 75% of the shares entitled to vote at the meeting, and action may be taken by a vote of the majority of all the outstanding shares that are entitled to vote. If a quorum is not available, a second meeting may be called, at which the quorum will be the majority of the outstanding capital stock entitled to vote, and actions will be taken by holders of the majority of all the

outstanding capital stock entitled to vote.

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Shareholders meetings may be called by the board of directors, the audit committee or the corporate practices committee and, under certain circumstances, a Mexican court. Additionally, holders of 10% or more of our capital stock may require the chairman of the board of directors, or the chairman of the audit or corporate practices committees to call a shareholders meeting. A notice of meeting and an agenda must be published in the electronic system of the *Secretaría de Economía* (Secretary of Economy) and in the *Periódico Oficial del Estado de Nuevo León* (Official State Gazette of Nuevo León, or the Official State Gazette) or a newspaper of general distribution in Monterrey, Nuevo León, Mexico at least 15 days prior to the date set for the meeting. Notices must set forth the place, date and time of the meeting and the matters to be addressed and must be signed by whoever convened the meeting. Shareholders meetings will be deemed validly held and convened without a prior notice or publication only to the extent that all the shares representing our capital stock are fully represented. All relevant information relating to the shareholders meeting must be made available to shareholders starting on the date of publication of the notice involving such shareholders meeting. To attend a meeting, shareholders must deposit their shares with the company or with Indeval or an institution for the deposit of securities prior to the meeting as indicated in the notice. If entitled to attend a meeting, a shareholder may be represented by an attorney-in-fact.

In addition to the provisions of the Mexican General Corporations Law, the ordinary shareholders meeting shall be convened to approve any transaction that, in a fiscal year, represents 20% or more of the consolidated assets of the company as of the immediately prior quarter, whether such transaction is executed in one or several operations, to the extent that, according to the nature of such transactions, they may be deemed the same. All shareholders shall be entitled to vote on in such ordinary shareholders meeting, including those with limited or restricted voting rights.

### ***Dividend Rights***

At the AGM, the board of directors submits the financial statements of the company for the previous fiscal year, together with a report thereon by the board of directors. Once the holders of Series B Shares have approved the financial statements, they determine the allocation of our net profits for the preceding year. Mexican law requires the allocation of at least 5% of net profits to a legal reserve, which is not subsequently available for distribution, until the amount of the legal reserve equals 20% of our paid in capital stock. Thereafter, the holders of Series B Shares may determine and allocate a certain percentage of net profits to any general or special reserve, including a reserve for open-market purchases of our shares. The remainder of net profits is available for distribution in the form of dividends to the shareholders. Dividends may only be paid if net profits are sufficient to offset losses from prior fiscal years.

Our bylaws provide that dividends will be allocated among the shares outstanding and fully paid at the time a dividend is declared in such manner that each Series D-B Share and Series D-L Share receives 125% of the dividend distributed in respect of each Series B Share. Holders of Series D-B Shares and Series D-L Shares are entitled to this dividend premium in connection with all dividends paid by us.

### ***Change in Capital***

Our outstanding capital stock consists of both a fixed and a variable portion. The fixed portion of our capital stock may be increased or decreased only by an amendment of the bylaws adopted by an extraordinary shareholders meeting. The variable portion of our capital stock may be increased or decreased by resolution of an ordinary shareholders meeting. Capital increases and decreases must be recorded in our share registry and book of capital variations, if applicable.

A capital stock increase may be effected through the issuance of new shares for payment in cash or in kind, or by capitalization of indebtedness or of certain items of stockholders' equity. Treasury stock may only be sold pursuant to a public offering.

Any increase or decrease in our capital stock or any redemption or repurchase will be subject to the following limitations: (1) Series B Shares will always represent at least 51% of our outstanding capital stock and the Series D-L Shares and Series L Shares will never represent more than 25% of our outstanding capital stock; and (2) the Series D-B, Series D-L and Series L Shares will not exceed, in the aggregate, 49% of our outstanding capital stock.

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### ***Preemptive Rights***

Under Mexican law, except in limited circumstances which are described below, in the event of an increase in our capital stock, a holder of record generally has the right to subscribe to shares of a series held by such holder sufficient to maintain such holder's existing proportionate holding of shares of that series. Preemptive rights must be exercised during a term fixed by the shareholders at the meeting declaring the capital increase, which term must last at least 15 days following the publication of notice of the capital increase in the Official State Gazette. As a result of applicable United States securities laws, holders of ADSs may be restricted in their ability to participate in the exercise of preemptive rights under the terms of the deposit agreement. Shares subject to a preemptive rights offering, with respect to which preemptive rights have not been exercised, may be sold by us to third parties on the same terms and conditions previously approved by the shareholders or the board of directors. Under Mexican law, preemptive rights cannot be waived in advance or be assigned, or be represented by an instrument that is negotiable separately from the corresponding shares.

Our bylaws provide that shareholders will not have preemptive rights to subscribe shares in the event of a capital stock increase or listing of treasury stock in any of the following events: (i) merger of the Company; (ii) conversion of obligations (*conversion de obligaciones*) in terms of the Mexican General Credit Instruments and Credit Operations Law (*Ley General de Títulos y Operaciones de Crédito*); (iii) public offering made according to the terms of articles 53, 56 and related provisions of the Mexican Securities Law; and (iv) capital increase made through the payment in kind of the issued shares or through the cancellation of debt of the Company.

### ***Limitations on Share Ownership***

Ownership of shares of Mexican companies by non-Mexican residents is regulated by the Foreign Investment Law and its regulations. The Foreign Investment Commission is responsible for the enforcement of the Foreign Investment Law and its regulations.

As a general rule, the Foreign Investment Law allows foreign holdings of up to 100% of the capital stock of Mexican companies, except for those companies engaged in certain specified restricted industries. The Foreign Investment Law and its regulations require that Mexican shareholders retain the power to determine the administrative control and the management of corporations in industries in which special restrictions on foreign holdings are applicable. Foreign investment in our shares is not limited under either the Foreign Investment Law or its regulations.

### ***Management of the Company***

Management of the company is entrusted to the board of directors and also to the chief executive officer, who is required to follow the strategies, policies and guidelines approved by the board of directors and the authority, obligations and duties expressly authorized in the Mexican Securities Law.

At least 25% of the members of the board of directors shall be independent. Independence of the members of the board of directors is determined by the shareholders meeting, subject to the CNBV's challenge of such determination. In the performance of its responsibilities, the board of directors will be supported by a corporate practices committee and an audit committee. The corporate practices committee and the audit committee consist solely of independent directors. Each committee is formed by at least three board members appointed by the shareholders or by the board of directors. The chairmen of said committees are appointed (taking into consideration their experience, capacity and professional prestige) and removed exclusively by a vote in a shareholders meeting.

### ***Surveillance***

Surveillance of the company is entrusted to the board of directors, which shall be supported in the performance of these functions by the corporate practices committee, the audit committee and our external auditor. The external auditor may be invited to attend board of directors meetings as an observer, with a right to participate but without voting rights.

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### ***Authority of the Board of Directors***

The board of directors is our legal representative and is authorized to take any action in connection with our operations not expressly reserved to our shareholders. Pursuant to the Mexican Securities Law, the board of directors must approve, *observing at all moments their duty of care and duty of loyalty*, among other matters:

any related-party transactions which are deemed to be outside the ordinary course of our business;

significant asset transfers or acquisitions;

material guarantees or collateral;

internal policies; and

other material transactions.

Meetings of the board of directors are validly convened and held if a majority of the members are present. Resolutions passed at these meetings will be valid if approved by a majority of members of the board of directors are present at the meeting. If required, the chairman of the board of directors may cast a tie-breaking vote.

### ***Redemption***

We may redeem part of our shares for cancellation with distributable earnings pursuant to a decision of an extraordinary shareholders meeting. Only shares subscribed and fully paid for may be redeemed. Any shares intended to be redeemed shall be purchased on the Mexican Stock Exchange in accordance with the Mexican General Corporations Law and the Mexican Securities Law. No shares will be redeemed, if as a consequence of such redemption, the Series D and Series L Shares in the aggregate exceed the percentages permitted by our bylaws or if any such redemption will reduce our fixed capital below its minimum.

### ***Repurchase of Shares***

According to our bylaws, subject to the provisions of the Mexican Securities Law and under rules promulgated by the CNBV, we may repurchase our shares at any time at the then prevailing market price. The maximum amount available for repurchase of our shares must be approved at the AGM. The economic and voting rights corresponding to such repurchased shares may not be exercised while our company owns the shares.

In accordance with the Mexican Securities Law, our subsidiaries may not purchase, directly or indirectly, shares of our capital stock or any security that represents such shares.

### ***Forfeiture of Shares***

As required by Mexican law, our bylaws provide that non-Mexican holders of BD Units, B Units or shares (1) are considered to be Mexican with respect to such shares that they acquire or hold and (2) may not invoke the protection of their own governments in respect of the investment represented by those shares. Failure to comply with our bylaws may result in a penalty of forfeiture of a shareholder's capital stock in favor of the Mexican state. In the opinion of Carlos Eduardo Aldrete Ancira, our general counsel, under this provision, a non-Mexican shareholder (including a non-Mexican holder of ADSs) is deemed to have agreed not to invoke the protection of its own government by asking such government to interpose a diplomatic claim against the Mexican state with respect to its rights as a shareholder, but is not deemed to have waived any other rights it may have, including any rights under the United States securities laws, with respect to its investment in our company. If a shareholder should invoke governmental protection in violation of this agreement, its shares could be forfeited to the Mexican state.



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### ***Duration***

The bylaws provide that the duration of our company is 99 years, commencing on May 30, 1936, unless extended by a resolution of an extraordinary shareholders meeting.

### ***Appraisal Rights***

Whenever the shareholders approve a change of corporate purpose, change of jurisdiction of incorporation or the transformation from one form of corporate organization to another, any shareholder entitled to vote on such change that has voted against it, may withdraw as a shareholder of our company and have its shares redeemed by FEMSA at a price per share calculated as specified under applicable Mexican law, provided that it exercises its right within 15 days following the adjournment of the meeting at which the change was approved. Under Mexican law, the amount which a withdrawing shareholder is entitled to receive is equal to its proportionate interest in our capital stock or according to our most recent balance sheet approved by an ordinary general shareholders meeting.

### ***Delisting of Shares***

In the event of a cancellation of the registration of any of our shares with the RNV, whether by order of the CNBV or at our request with the prior consent of 95% of the holders of our outstanding capital stock, our bylaws and the new Mexican Securities Law require us to make a public offer to acquire these shares prior to their cancellation.

### ***Liquidation***

Upon the dissolution of our company, one or more liquidators must be appointed by an extraordinary general meeting of the shareholders to wind up its affairs. All fully paid and outstanding shares of capital stock will be entitled to participate equally in any distribution upon liquidation.

### ***Actions Against Directors***

Shareholders (including holders of Series D-B and Series D-L Shares) representing, in the aggregate, not less than 5% of our capital stock may directly bring an action against directors.

In the event of actions derived from any breach of the duty of care and the duty of loyalty, liability is exclusively in favor of the company. The Mexican Securities Law establishes that liability may be imposed on the members and the secretary of the board of directors, as well as to the relevant officers.

Notwithstanding, the Mexican Securities Law provides that the members of the board of directors will not incur, individually or jointly, liability for damages and losses caused to the company, when their acts were made in good faith, in any of the following events (1) the directors complied with the requirements of the Mexican Securities Law and with the company's bylaws, (2) the decision making or voting was based on information provided by the relevant officers, the external auditor or the independent experts, whose capacity and credibility do not offer reasonable doubt; (3) the negative economic effects could not have been foreseen, based on the information available; and (4) they comply with the resolutions of the shareholders' meeting when such resolutions comply with applicable law.

### ***Fiduciary Duties Duty of Care***

The Mexican Securities Law provides that the directors shall act in good faith and in our best interest and in the best interest of our subsidiaries. In order to fulfill its duty, the board of directors may:

request information about us or our subsidiaries that is reasonably necessary to fulfill its duties;

require our officers and certain other persons, including the external auditors, to appear at board of directors' meetings to report to the board of directors;

postpone board of directors meetings for up to three days when a director has not been given sufficient notice of the meeting or in the event that a director has not been provided with the information provided to the other directors; and

require a matter be discussed and voted upon by the full board of directors in the presence of the secretary of the board of directors.



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Our directors may be liable for damages for failing to comply their duty of care if such failure causes economic damage to us or our subsidiaries and the director (1) failed to attend, board of directors or committee meetings and as a result of, such failure, the board of directors was unable to take action, unless such absence is approved by the shareholders meeting, (2) failed to disclose to the board of directors or the committees material information necessary for the board of directors to reach a decision, unless legally or contractually prohibited from doing so in order to maintain confidentiality, and (3) failed to comply with the duties imposed by the Mexican Securities Law or our bylaws.

### ***Fiduciary Duties Duty of Loyalty***

The Mexican Securities Law provides that the directors and secretary of the board of directors shall keep confidential any non-public information and matters about which they have knowledge as a result of their position. Also, directors should abstain from participating, attending or voting at meetings related to matters where they have a conflict of interest.

The directors and secretary of the board of directors will be deemed to have violated the duty of loyalty, and will be liable for damages, when they obtain an economic benefit by virtue of their position. Further, the directors will fail to comply with their duty of loyalty if they:

vote at a board of directors meeting or take any action on a matter involving our assets where there is a conflict of interest;

fail to disclose a conflict of interest during a board of directors meeting;

enter into a voting arrangement to support a particular shareholder or group of shareholders against the other shareholders;

approve of transactions without complying with the requirements of the Mexican Securities Law;

use company property in violation of the policies approved by the board of directors;

unlawfully use material non-public information; and

usurp a corporate opportunity for their own benefit or the benefit of third parties, without the prior approval of the board of directors.

### ***Limited Liability of Shareholders***

The liability of shareholders for our company's losses is limited to their shareholdings in our company.

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### **Taxation**

The following summary contains a description of certain U.S. federal income and Mexican federal tax consequences of the purchase, ownership and disposition of our ADSs, but it does not purport to be a description of all of the possible tax considerations that may be relevant to a decision to purchase, hold or dispose of ADSs. For purposes of this summary, the term "U.S. holder" means a holder that is a citizen or resident of the United States, a U.S. domestic corporation or a person or entity that otherwise will be subject to U.S. federal income tax on a net income basis in respect of our ADSs. In particular, this discussion does not address all Mexican or U.S. federal income tax considerations that may be relevant to a particular investor, nor does it address the special tax rules applicable to certain categories of investors, such as banks, dealers, traders who elect to mark to market, tax-exempt entities, insurance companies, certain short-term holders of ADSs or investors who hold our ADSs as part of a hedge, straddle, conversion or integrated transaction, partnerships that hold ADSs, or partners therein, nonresident aliens present in the United States for more than 182 days in a taxable year, or investors who have a functional currency other than the U.S. dollar. This summary deals only with U.S. holders that will hold our ADSs as capital assets and does not address the tax treatment of a U.S. holder that owns or is treated as owning 10% or more of the voting shares (including ADSs) of the company.

This summary is based upon the federal tax laws of the United States and Mexico as in effect on the date of this annual report, including the provisions of the income tax treaty between the United States and Mexico which we refer to as the Tax Treaty, which are subject to change. The summary does not address any tax consequences under the laws of any state or locality of Mexico or the United States or the laws of any taxing jurisdiction other than the federal laws of Mexico and the United States. Holders of our ADSs should consult their tax advisors as to the U.S., Mexican or other tax consequences of the purchase, ownership and disposition of ADSs, including, in particular, the effect of any foreign, state or local tax laws.

### ***Mexican Taxation***

For purposes of this summary, the term "non-resident holder" means a holder that is not a resident of Mexico for tax purposes and that does not hold our ADSs in connection with the conduct of a trade or business through a permanent establishment for tax purposes in Mexico. For purposes of Mexican taxation, an individual is a resident of Mexico if he or she has established his or her home in Mexico, or if he or she has another home outside Mexico, but his or her *Centro de Intereses Vitales* (Center of Vital Interests) (as defined in the Mexican Tax Code) is located in Mexico and, among other circumstances, more than 50% of that person's total income during a calendar year comes from within Mexico. A legal entity is a resident of Mexico if it has either its principal place of business or its place of effective management in Mexico. A Mexican citizen is presumed to be a resident of Mexico unless he or she can demonstrate that the contrary is true. If a legal entity or an individual is deemed to have a permanent establishment in Mexico for tax purposes, all income attributable to the permanent establishment will be subject to Mexican taxes, in accordance with applicable tax laws.

*Taxation of Dividends.* Under Mexican income tax law, dividends, either in cash or in kind, paid with respect to our shares represented by our ADSs are not subject to Mexican withholding tax if such dividends were distributed from the net taxable profits generated before 2014. Dividends distributed from the net taxable profits generated after or during 2014 will be subject to Mexican withholding tax at a rate of 10%.

*Taxation of Dispositions of ADSs.* Gains from the sale or disposition of ADSs by non-resident holders will not be subject to Mexican tax, if the disposition is carried out through a stock exchange recognized under applicable Mexican tax law and the transferor is resident of a country with which Mexico has entered into a tax treaty for the avoidance of double taxation; if the transferor is not a resident of such a country, the gain will be taxable at the rate of 10%, in which case the tax will be withheld by the financial intermediary.

In compliance with certain requirements, gains on the sale or other disposition of ADSs made in circumstances different from those set forth in the prior paragraph generally would be subject to Mexican tax, at the general rate of 25% of the gross income, regardless of the nationality or residence of the transferor. However, under the Tax Treaty, a holder that is eligible to claim the benefits of the Tax Treaty will be exempt from Mexican tax on gains realized on a sale or other disposition of our ADSs in a transaction that is not carried out through the Mexican Stock Exchange or other approved securities markets, so long as the holder did not own, directly or indirectly, 25% or more of our outstanding capital stock (including shares represented by our ADSs) within the 12-month period preceding such sale or other disposition. Deposits of shares in exchange for ADSs and withdrawals of shares in exchange for our ADSs will not give rise to Mexican tax.

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*Other Mexican Taxes.* There are no Mexican inheritance, gift, succession or value added taxes applicable to the ownership, transfer, exchange or disposition of our ADSs. There are no Mexican stamp, issue, registration or similar taxes or duties payable by holders of our ADSs.

***United States Taxation***

***Tax Considerations Relating to the ADSs***

In general, for U.S. federal income tax purposes, holders of ADSs will be treated as owners of the shares represented by those ADSs.

*Taxation of Dividends.* The gross amount of any distributions paid with respect to our shares represented by our ADSs, to the extent paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes, generally will be included in the gross income of a U.S. holder as foreign source dividend income on the day on which the dividends are received by the ADS depository and will not be eligible for the dividends received deduction allowed to corporations under the Internal Revenue Code of 1986, as amended. Because we do not expect to maintain calculations of our earnings and profits in accordance with U.S. federal income tax principles, it is expected that distributions paid to U.S. holders generally will be reported as dividends.

Dividends, which will be paid in Mexican pesos, will be includible in the income of a U.S. holder in a U.S. dollar amount calculated, in general, by reference to the exchange rate in effect on the date that they are received by the ADS depository (regardless of whether such Mexican pesos are in fact converted into U.S. dollars on such date). If such dividends are converted into U.S. dollars on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividends. U.S. holders should consult their tax advisors regarding the treatment of the foreign currency gain or loss, if any, on any Mexican pesos received that are converted into U.S. dollars on a date subsequent to the date of receipt.

The amount of Mexican tax withheld generally will give rise to a foreign tax credit or deduction for U.S. federal income tax purposes. Dividends generally will constitute passive category income for purposes of the foreign tax credit (or in the case of certain U.S. holders, general category income). The foreign tax credit rules are complex. U.S. holders should consult their own tax advisors with respect to the implications of those rules for their investments in our ADSs.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual U.S. holder in respect of the ADSs generally is subject to taxation at the reduced rate applicable to long-term capital gains if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (1) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service has approved for the purposes of the qualified dividend rules, or the dividends are paid with respect to ADSs that are readily tradable on an established U.S. securities market and (2) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company. The income tax treaty between Mexico and the United States has been approved for the purposes of the qualified dividend rules. The ADSs are listed on the NYSE, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited consolidated financial statements and relevant market and shareholder data, we believe that we were not treated as a passive foreign investment company for U.S. federal income tax purposes with respect to our 2016 taxable year. In addition, based on our audited consolidated financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a passive foreign investment company for our 2017 taxable year.

Distributions to holders of additional shares with respect to our ADSs that are made as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

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*Taxation of Capital Gains.* A gain or loss realized by a U.S. holder on the sale or other taxable disposition of ADSs will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between the amount realized on the disposition and such U.S. holder's tax basis in the ADSs (each calculated in dollars). Any such gain or loss will be a long-term capital gain or loss if the ADSs were held for more than one year on the date of such sale. Any long-term capital gain recognized by a U.S. holder that is an individual is subject to a reduced rate of federal income taxation. The deduction of capital losses is subject to limitations for U.S. federal income tax purposes. Deposits and withdrawals of shares by U.S. holders in exchange for ADSs will not result in the realization of gains or losses for U.S. federal income tax purposes.

Any gain realized by a U.S. holder on the sale or other disposition of ADSs generally will be treated as U.S. source income for U.S. foreign tax credit purposes.

*United States Backup Withholding and Information Reporting.* A U.S. holder of ADSs may, under certain circumstances, be subject to information reporting and backup withholding with respect to certain payments to such U.S. holder, such as dividends, interest or the proceeds of a sale or disposition of ADSs, unless such holder (1) is a corporation or comes within certain exempt categories, and demonstrates this fact when so required, or (2) in the case of backup withholding, provides a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under these rules does not constitute a separate tax and will be creditable against the holder's U.S. federal income tax liability.

*Specified Foreign Financial Assets.* Certain U.S. holders that own specified foreign financial assets with an aggregate value in excess of USD 50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets.

Specified foreign financial assets include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include the ADSs) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders who fail to report the required information could be subject to substantial penalties. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in the ADSs, including the application of the rules to their particular circumstances.

***U.S. Tax Consequences for Non-U.S. Holders***

*Taxation of Dividends and Capital Gains.* Subject to the discussion below under United States Backup Withholding and Information Reporting, a holder of ADSs that is not a U.S. holder (a non-U.S. holder) generally will not be subject to U.S. federal income or withholding tax on dividends received on ADSs or on any gain realized on the sale of ADSs.

*United States Backup Withholding and Information Reporting.* While non-U.S. holders generally are exempt from information reporting and backup withholding, a non-U.S. holder may, in certain circumstances, be required to comply with certain information and identification procedures in order to prove this exemption.

**Material Contracts**

We and our subsidiaries are parties to a variety of material agreements with third parties, including shareholders' agreements, supply agreements and purchase and service agreements. Set forth below are summaries of the material terms of such agreements. The actual agreements have either been filed as exhibits to, or incorporated by reference in, this annual report. **See Item 19. Exhibits.**

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### **Material Contracts Relating to Coca-Cola FEMSA**

#### ***Shareholders Agreement***

Coca-Cola FEMSA operates pursuant to a shareholders agreement among our company and The Coca-Cola Company and certain of its subsidiaries. This agreement, together with Coca-Cola FEMSA's bylaws, sets forth the basic rules pursuant to which Coca-Cola FEMSA operates.

In February 2010, Coca-Cola FEMSA's main shareholders, FEMSA and The Coca-Cola Company, amended the shareholders agreement, and Coca-Cola FEMSA's bylaws were amended accordingly. The amendment mainly related to changes in the voting requirements for decisions on: (1) ordinary operations within an annual business plan and (2) appointment of the chief executive officer and all officers reporting to him, all of which now may be taken by the board of directors by simple majority voting. Also, the amendment provided that payment of dividends, up to an amount equivalent to 20% of the preceding years' retained earnings, may be approved by a simple majority of the shareholders. Any decision on extraordinary matters, as they are defined in Coca-Cola FEMSA's bylaws and which include, among other things, any new business acquisition, business combinations, or any change in the existing line of business, shall require the approval of the majority of the members of the board of directors, with the vote of two of the members appointed by The Coca-Cola Company. Also, any decision related to such extraordinary matters or any payment of dividends above 20% of the preceding years' retained earnings shall require the approval of a majority of the shareholders of Coca-Cola FEMSA's Series A and Series D Shares voting together as a single class.

Under Coca-Cola FEMSA's bylaws and shareholders agreement, its Series A Shares and Series D Shares are the only shares with full voting rights and, therefore, control actions by its shareholders. The shareholders agreement also sets forth the principal shareholders' understanding as to the effect of adverse actions of The Coca-Cola Company under the bottler agreements. Coca-Cola FEMSA's bylaws and shareholders agreement provide that a majority of the directors appointed by the holders of its Series A Shares, upon making a reasonable, good faith determination that any action of The Coca-Cola Company under any bottler agreement between The Coca-Cola Company and Coca-Cola FEMSA or any of its subsidiaries is materially adverse to Coca-Cola FEMSA's business interests and that The Coca-Cola Company has failed to cure such action within 60 days of notice, may declare a simple majority period, as defined in Coca-Cola FEMSA's bylaws, at any time within 90 days after giving notice. During the simple majority period certain decisions, namely the approval of material changes in Coca-Cola FEMSA's business plans, the introduction of a new, or termination of an existing, line of business, and related-party transactions outside the ordinary course of business, to the extent the presence and approval of at least two Coca-Cola FEMSA Series D directors would otherwise be required, can be made by a simple majority vote of its entire board of directors, without requiring the presence or approval of any Coca-Cola FEMSA Series D director. A majority of the Coca-Cola FEMSA Series A directors may terminate a simple majority period but, once having done so, cannot declare another simple majority period for one year after the termination. If a simple majority period persists for one year or more, the provisions of the shareholders agreement for resolution of irreconcilable differences may be triggered, with the consequences outlined in the following paragraph.

In addition to the rights of first refusal provided for in Coca-Cola FEMSA's bylaws regarding proposed transfers of its Series A Shares or Series D Shares, the shareholders agreement contemplates three circumstances under which one principal shareholder may purchase the interest of the other in Coca-Cola FEMSA: (1) a change in control in a principal shareholder; (2) the existence of irreconcilable differences between the principal shareholders; or (3) the occurrence of certain specified events of default.

In the event that (1) one of the principal shareholders buys the other's interest in Coca-Cola FEMSA in any of the circumstances described above or (2) the ownership of Coca-Cola FEMSA's shares of capital stock other than the Series L Shares of the subsidiaries of The Coca-Cola Company or FEMSA is reduced below 20% and upon the request of the shareholder whose interest is not so reduced, the shareholders agreement requires that Coca-Cola FEMSA's bylaws be amended to eliminate all share transfer restrictions and all special-majority voting and quorum requirements, after which the shareholders agreement would terminate.

The shareholders agreement also contains provisions relating to the principal shareholders' understanding as to Coca-Cola FEMSA's growth. It states that it is The Coca-Cola Company's intention that Coca-Cola FEMSA will be viewed as one of a small number of its anchor bottlers in Latin America. In particular, the parties agree that it is desirable that Coca-Cola FEMSA expands by acquiring additional bottler territories in Mexico and other Latin American countries in the event any become available through horizontal growth. In addition, The Coca-Cola Company has agreed, subject to a number of conditions, that if it obtains ownership of a bottler territory that fits with Coca-Cola FEMSA's operations, it will give Coca-Cola FEMSA the option to acquire such territory. The Coca-Cola Company has also agreed to support reasonable and sound modifications to Coca-Cola FEMSA's capital structure to support horizontal growth. The Coca-Cola Company's agreement as to horizontal growth expires upon either the elimination of the super-majority voting requirements described above or The Coca-Cola Company's election to terminate the agreement as a result of a default.



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### *The Coca-Cola Memorandum*

In connection with the acquisition of Panamco, in 2003, Coca-Cola FEMSA established certain understandings primarily relating to operational and business issues with both The Coca-Cola Company and our company that were memorialized in writing prior to completion of the acquisition. Although the memorandum has not been amended, Coca-Cola FEMSA continues to develop its relationship with The Coca-Cola Company (through, *inter alia*, acquisitions and taking on new product categories), and Coca-Cola FEMSA therefore believes that the memorandum should be interpreted in the context of subsequent events, some of which have been noted in the description below. The principal terms are as follows:

The shareholder arrangements between our company and The Coca-Cola Company and certain of its subsidiaries will continue in place. On February 1, 2010, FEMSA amended its shareholders agreement with The Coca-Cola Company. **See Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA Shareholders Agreement.**

We will continue to consolidate Coca-Cola FEMSA's financial results under IFRS.

The Coca-Cola Company and our company will continue to discuss in good faith the possibility of implementing changes to Coca-Cola FEMSA's capital structure in the future.

There will be no changes in concentrate pricing or marketing support by The Coca-Cola Company up to May 2004. After such time, The Coca-Cola Company has complete discretion to implement any changes with respect to these matters, but any decision in this regard will be discussed with Coca-Cola FEMSA and will take Coca-Cola FEMSA's operating condition into consideration.

The Coca-Cola Company may require the establishment of a different long-term strategy for Brazil. If, after taking into account our performance in Brazil, The Coca-Cola Company does not consider us to be part of this long-term strategic solution for Brazil, then we will sell our Brazilian franchise to The Coca-Cola Company or its designee at fair market value. Fair market value would be determined by independent investment bankers retained by each party at their own expense pursuant to specified procedures. Coca-Cola FEMSA currently believes the likelihood of this term applying is remote.

We, The Coca-Cola Company and Coca-Cola FEMSA will meet to discuss the optimal Latin American territorial configuration for the Coca-Cola bottler system. During these meetings, Coca-Cola FEMSA will consider all possible combinations and any asset swap transactions that may arise from these discussions. In addition, Coca-Cola FEMSA will entertain any potential combination as long as it is strategically sound and done at fair market value.

Coca-Cola FEMSA would like to keep open strategic alternatives that relate to the integration of sparkling beverages and beer. The Coca-Cola Company, our company and Coca-Cola FEMSA would explore these alternatives on a market-by-market basis at the appropriate time.

The Coca-Cola Company agreed to sell to us sufficient shares to permit us to beneficially own 51% of Coca-Cola FEMSA outstanding capital stock (assuming that we do not sell any shares and that there are no issuances of Coca-Cola FEMSA stock other than as contemplated by the acquisition). As a result of this understanding, in November 2006, we acquired, through a subsidiary, 148,000,000 of Coca-Cola FEMSA Series D shares from certain subsidiaries of The Coca-Cola Company, representing 9.4% of the total outstanding voting shares and 8% of the total outstanding equity of Coca-Cola FEMSA, at a price of US\$ 2.888 per share for an aggregate amount of US\$ 427.4 million. Pursuant to our bylaws, the acquired shares were converted from Series D shares to Series A shares.





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Coca-Cola FEMSA may be entering some markets where significant infrastructure investment may be required. The Coca-Cola Company and our company will conduct a joint study that will outline strategies for these markets, as well as the investment levels required to execute these strategies. Subsequently, it is intended that our company and The Coca-Cola Company will reach an agreement on the level of funding to be provided by each of the partners. The parties intend that this allocation of funding responsibilities would not be overly burdensome for either partner.

Coca-Cola FEMSA entered into a stand-by credit facility in December 2003 with The Coca-Cola Export Corporation, which expired in December 2006 and was never used.

### ***Cooperation Framework with The Coca-Cola Company***

In July 2016, Coca-Cola FEMSA announced a new, comprehensive framework with The Coca-Cola Company. This cooperation framework seeks to maintain a mutually beneficial business relationship over the long-term, which will allow both companies to focus on continuing to drive the business forward and generating profitable growth. The cooperation framework contemplates the following main objectives:

**Long term guidelines to the relationship economics:** Concentrate prices for sparkling beverages in Mexico will gradually increase over a three-year period beginning in July 2017 through July 2020. Based on our internal estimates for revenues and sales volume mix, we currently expect the incremental cost in Mexico to be the Mexican peso equivalent of approximately US\$35 million per year for each year during such period.

**Other Concentrate Price Adjustments.** Potential future concentrate price adjustments for sparkling beverages and flavored water in Mexico will take into account investment and profitability levels that are beneficial both to us and The Coca-Cola Company.

**Marketing and commercial strategies.** We and The Coca-Cola Company are committed to implementing marketing and commercial strategies as well as productivity programs to maximize profitability. We believe that these initiatives will partially mitigate the effects of concentrate price adjustments.

The Coca-Cola Company also recognizes our strong operating model and execution capabilities. With respect to territories of The Coca-Cola Company's Bottling Investments Group that it may divest in the future, we have reached an understanding with The Coca-Cola Company to assess, on a preferred basis, the acquisition of available territories.

### ***Bottler Agreements***

Bottler agreements are the standard agreements for each territory that The Coca-Cola Company enters into with bottlers. Pursuant to Coca-Cola FEMSA's bottler agreements, Coca-Cola FEMSA is authorized to manufacture, sell and distribute *Coca-Cola* trademark beverages within specific geographic areas, and Coca-Cola FEMSA is required to purchase concentrate for all *Coca-Cola* trademark beverages in all of its territories from companies designated by The Coca-Cola Company and sweeteners and other raw materials from companies authorized by The Coca-Cola Company.

These bottler agreements also provide that Coca-Cola FEMSA will purchase its entire requirement of concentrate for *Coca-Cola* trademark beverages at prices, terms of payment and on other terms and conditions of supply as determined from time to time by The Coca-Cola Company at its sole discretion. Concentrate prices for *Coca-Cola* trademark beverages are determined as a percentage of the weighted average retail price in local currency, net of applicable taxes. Although the price multipliers used to calculate the cost of concentrate and the currency of payment, among other terms, are set by The Coca-Cola Company at its sole discretion, Coca-Cola FEMSA sets the price of products sold to customers at its discretion, subject to the applicability of price restraints imposed by authorities in certain territories. Coca-Cola FEMSA has the exclusive right to distribute *Coca-Cola* trademark beverages for sale in its territories in authorized containers of the nature approved by the bottler agreements and currently used by Coca-Cola FEMSA. These containers include various configurations of cans and returnable and non-returnable bottles made of glass, aluminum and plastic and fountain containers.

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The bottler agreements include an acknowledgment by Coca-Cola FEMSA that The Coca-Cola Company is the sole owner of the trademarks that identify the *Coca-Cola* trademark beverages and of the formulas with which The Coca-Cola Company's concentrates are made. Subject to Coca-Cola FEMSA's exclusive right to distribute *Coca-Cola* trademark beverages in its territories, The Coca-Cola Company reserves the right to import and export *Coca-Cola* trademark beverages to and from each of Coca-Cola FEMSA's territories. Coca-Cola FEMSA's bottler agreements do not contain restrictions on The Coca-Cola Company's ability to set the price of concentrates and do not impose minimum marketing obligations on The Coca-Cola Company. The prices at which Coca-Cola FEMSA purchases concentrate under the bottler agreements may vary materially from the prices Coca-Cola FEMSA has historically paid. However, under Coca-Cola FEMSA's bylaws and the shareholders agreement among The Coca-Cola Company and certain of its subsidiaries and us, an adverse action by The Coca-Cola Company under any of the bottler agreements may result in a suspension of certain voting rights of the directors appointed by The Coca-Cola Company. This provides Coca-Cola FEMSA with limited protection against The Coca-Cola Company's ability to raise concentrate prices to the extent that such increase is deemed detrimental to us pursuant to such shareholder agreement and our bylaws. **See Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA The Shareholders Agreement.**

The Coca-Cola Company has the ability, at its sole discretion, to reformulate any of the *Coca-Cola* trademark beverages and to discontinue any of the *Coca-Cola* trademark beverages, subject to certain limitations, so long as all *Coca-Cola* trademark beverages are not discontinued. The Coca-Cola Company may also introduce new beverages in Coca-Cola FEMSA's territories in which case Coca-Cola FEMSA has a right of first refusal with respect to the manufacturing, packaging, distribution and sale of such new beverages subject to the same obligations as then exist with respect to the *Coca-Cola* trademark beverages under the bottler agreements. The bottler agreements prohibit Coca-Cola FEMSA from producing, bottling or handling beverages other than *Coca-Cola* trademark beverages, or other products or packages that would imitate, infringe upon, or cause confusion with the products, trade dress, containers or trademarks of The Coca-Cola Company, except under the authority of, or with the consent of, The Coca-Cola Company. The bottler agreements also prohibit Coca-Cola FEMSA from acquiring or holding an interest in a party that engages in such restricted activities. The bottler agreements impose restrictions concerning the use of certain trademarks, authorized containers, packaging and labeling of The Coca-Cola Company so as to conform to policies approved by The Coca-Cola Company. In particular, Coca-Cola FEMSA is obligated to:

maintain plant and equipment, staff and distribution facilities capable of manufacturing, packaging and distributing the *Coca-Cola* trademark beverages in authorized containers in accordance with its bottler agreements and in sufficient quantities to satisfy fully the demand in its territories;

undertake adequate quality control measures established by The Coca-Cola Company;

develop, stimulate and satisfy fully the demand for *Coca-Cola* trademark beverages using all approved means, which includes the investment in advertising and marketing plans;

maintain a sound financial capacity as may be reasonably necessary to assure performance by it and its subsidiaries of its obligations to The Coca-Cola Company; and

submit annually to The Coca-Cola Company its marketing, management, promotional and advertising plans for the ensuing year.

The Coca-Cola Company contributed a significant portion of Coca-Cola FEMSA's total marketing expenses in Coca-Cola FEMSA's territories during 2016 and has reiterated its intention to continue providing such support as part of Coca-Cola FEMSA's cooperation framework. Although Coca-Cola FEMSA believes that The Coca-Cola Company will continue to provide funds for advertising and marketing, it is not obligated to do so. Consequently, future levels of advertising and marketing support provided by The Coca-Cola Company may vary materially from the levels historically provided. **See Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA The Shareholders Agreement.**

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Coca-Cola FEMSA has separate bottler agreements with The Coca-Cola Company for each of the territories where it operates, on substantially the same terms and conditions. These 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.

As of December 31, 2016, Coca-Cola FEMSA had:

nine bottler agreements in Mexico: (i) two agreements for the Valley of Mexico territory, which are up for renewal in August 2017 and June 2023, (ii) the agreement for the southeast territory, which is up for renewal in June 2023, (iii) three agreements for the central territory, which are up for renewal in August 2017 (two agreements) and May 2025, (iv) the agreement for the northeast territory, which is up for renewal in August 2017, and (v) two agreements for the Bajío territory, which are up for renewal in August 2017 and May 2025;

nine bottler agreements in Brazil, which are up for renewal in October 2017 (seven agreements) and April 2024 (two agreements); and

one bottler agreement in each of Argentina, which is up for renewal in September 2024, Colombia, which is up for renewal in June 2024; Venezuela, which is up for renewal in August 2026; Guatemala, which is up for renewal in March 2025; Costa Rica, which is up for renewal in September 2017; Nicaragua, which is up for renewal in May 2026 and Panama, which is up for renewal in November 2024.

The bottler agreements are subject to termination by The Coca-Cola Company in the event of default by Coca-Cola FEMSA. The default provisions include limitations on the change in ownership or control of Coca-Cola FEMSA and the assignment or transfer of the bottler agreements and are designed to preclude any person not acceptable to The Coca-Cola Company from obtaining an assignment of a bottler agreement or from acquiring Coca-Cola FEMSA independently of other rights set forth in the shareholders' agreement. These provisions may prevent changes in Coca-Cola FEMSA's principal shareholders, including mergers or acquisitions involving sales or dispositions of Coca-Cola FEMSA's capital stock, which will involve an effective change of control, without the consent of The Coca-Cola Company. See **Item 10. Additional Information - Material Contracts - Material Contracts Relating to Coca-Cola FEMSA - The Shareholders Agreement.**

Coca-Cola FEMSA has also entered into tradename license agreements with The Coca-Cola Company pursuant to which it is authorized to use certain trademark names of The Coca-Cola Company with Coca-Cola FEMSA's corporate name. These agreements have a ten-year term and are automatically renewed for ten-year terms, but are terminated if Coca-Cola FEMSA ceases to manufacture, market, sell and distribute *Coca-Cola* trademark products pursuant to the bottler agreements or if the shareholders agreement is terminated. The Coca-Cola Company also has the right to terminate a license agreement if Coca-Cola FEMSA uses its trademark names in a manner not authorized by the bottler agreements.

### **Material Contracts Relating to our Holding of Heineken Shares**

#### ***Share Exchange Agreement***

On January 11, 2010, FEMSA and certain of our subsidiaries entered into a share exchange agreement, which we refer to as the Share Exchange Agreement, with Heineken Holding N.V. and Heineken N.V. The Share Exchange Agreement required Heineken N.V., in consideration for 100% of the shares of EMPREX Cerveza, S.A. de C.V. (now Heineken Mexico Holding, S.A. de C.V.), which we refer to as EMPREX Cerveza, to deliver at the closing of the Heineken transaction 86,028,019 newly-issued Heineken N.V. shares to FEMSA with a commitment to deliver, pursuant to the ASDI, 29,172,504 Allotted Shares over a period of not more than five years from the date of the closing of the Heineken transaction. As of October 5, 2011, we had received the totality of the Allotted Shares.

The Share Exchange Agreement provided that, simultaneously with the closing of the transaction, Heineken Holding N.V. would swap 43,018,320 Heineken N.V. shares with FEMSA for an equal number of newly issued Heineken Holding N.V. shares. After the closing of the Heineken transaction, we owned 7.5% of Heineken N.V.'s shares. This percentage increased to 12.53% upon full delivery of the Allotted Shares and, together with our ownership of 14.94% of Heineken Holding N.V.'s shares, represents an aggregate 20% economic interest in the Heineken Group.



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Under the terms of the Share Exchange Agreement, in exchange for such economic interest in the Heineken Group, FEMSA delivered 100% of the shares representing the capital stock of EMPREX Cerveza, which owned 100% of the shares of FEMSA Cerveza. As a result of the transaction, EMPREX Cerveza and FEMSA Cerveza became wholly-owned subsidiaries of Heineken.

The principal provisions of the Share Exchange Agreement are as follows:

delivery to Heineken N.V., by FEMSA, of 100% of the outstanding share capital of EMPREX Cerveza, which together with its subsidiaries, constitutes the entire beer business and operations of FEMSA in Mexico and Brazil (including the United States and other export business);

delivery to FEMSA by Heineken N.V. of 86,028,019 new Heineken N.V. shares;

simultaneously with the closing of the Heineken transaction, a swap between Heineken Holding N.V. and FEMSA of 43,018,320 Heineken N.V. shares for an equal number of newly issued shares in Heineken Holding N.V.;

the commitment by Heineken N.V. to assume indebtedness of EMPREX Cerveza and subsidiaries amounting to approximately US\$ 2.1 billion;

the provision by FEMSA to the Heineken Group of indemnities customary in transactions of this nature concerning FEMSA and FEMSA Cerveza and its subsidiaries and their businesses;

FEMSA's covenants to operate the EMPREX Cerveza business in the ordinary course consistent with past practice until the closing of the transaction, subject to customary exceptions, with the economic risks and benefits of the EMPREX Cerveza business transferring to Heineken as of January 1, 2010;

the provision by Heineken N.V. and Heineken Holding N.V. to FEMSA of indemnities customary in transactions of this nature concerning the Heineken Group; and

FEMSA's covenants, subject to certain limitations, to not engage in the production, manufacture, packaging, distribution, marketing or sale of beer and similar beverages in Latin America, the United States, Canada and the Caribbean.

### ***Corporate Governance Agreement***

On April 30, 2010, FEMSA, CB Equity (as transferee of the Heineken N.V. and Heineken Holding N.V. Exchange Shares and Allotted Shares), Heineken N.V., Heineken Holding N.V. and L'Arche Green N.V. (as majority shareholder of Heineken Holding N.V.) entered into a corporate governance agreement, which we refer to as the Corporate Governance Agreement, which establishes the terms of the relationship between Heineken and FEMSA after the closing of the Heineken transaction.

The Corporate Governance Agreement covers, among other things, the following topics:

FEMSA's representation on the Heineken Holding Board and the Heineken Supervisory Board and the creation of an Americas committee, also with FEMSA's representation;

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FEMSA's representation on the selection and appointment committee and the audit committee of the Heineken Supervisory Board;

FEMSA's commitment to not increase its holding in Heineken Holding N.V. above 20% and to not increase its holding in the Heineken Group above a maximum 20% economic interest (subject to certain exceptions); and

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FEMSA's agreement not to transfer any shares in Heineken N.V. or Heineken Holding N.V. for a five-year period, subject to certain exceptions, including among others, (i) beginning in the third anniversary, the right to sell up to 1% of all outstanding shares of each of Heineken N.V. and Heineken Holding N.V. in each calendar quarter, and (ii) beginning in the third anniversary, the right to dividend or distribute to its shareholders each of Heineken N.V. and Heineken Holding N.V. shares.

Under the Corporate Governance Agreement, FEMSA is entitled to nominate two representatives to the Heineken Supervisory Board, one of whom will be appointed as its vice-chairman and will also serve as a representative of FEMSA on the Heineken Supervisory Board. Our nominees for appointment to the Heineken Supervisory Board were José Antonio Fernández Carbajal, our Executive Chairman of the Board, and Javier Astaburuaga Sanjines, our Vice President of Corporate Development, who were both approved by Heineken N.V.'s general meeting of shareholders. Mr. Fernández Carbajal was also approved to the Heineken Holding N.V. Board of Directors by the general meeting of shareholders of Heineken Holding N.V.

In addition, the Heineken Supervisory Board has created an Americas committee to oversee the strategic direction of the business in the American continent and assess new business opportunities in that region. The Americas committee consists of two existing members of the Heineken Supervisory Board and one FEMSA representative, who acts as the chairman. The chairman of the Americas committee is José Antonio Fernández Carbajal, our Executive Chairman of the Board.

The Corporate Governance Agreement has no fixed term, but certain provisions cease to apply if FEMSA ceases to have the right to nominate a representative to the Heineken Holding N.V. Board of Directors and the Heineken N.V. Supervisory Board. For example, in certain circumstances, FEMSA would be entitled to only one representative on the Heineken Supervisory Board, including in the event that FEMSA's economic interest in the Heineken Group were to fall below 14%, the current FEMSA control structure were to change or FEMSA were to be subject to a change of control. In the event that FEMSA's economic interest in Heineken falls below 7% or a beer producer acquires control of FEMSA, all of FEMSA's corporate governance rights would end pursuant to the Corporate Governance Agreement.

## **Documents on Display**

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at its public reference rooms in Washington, D.C., at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Filings we make electronically with the SEC are also available to the public over the Internet at the SEC's website at [www.sec.gov](http://www.sec.gov).

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**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our business activities require the holding or issuing of derivative financial instruments that expose us to market risks related to changes in interest rates, foreign currency exchange rates, equity risk and commodity price risk.

**Interest Rate Risk**

Interest rate risk exists principally with respect to our indebtedness that bears interest at floating rates. At December 31, 2016, we had outstanding total debt of Ps. 139,248 million, of which 8.9% bore interest at variable interest rates and 91.1% bore interest at fixed interest rates. After giving effect to these contracts, as of December 31, 2016, 68.6% of our total debt was fixed rate and 31.4% of our total debt was variable rate (the total amount of debt and of variable rate debt and fixed rate debt used in the calculation of this percentage was obtained by converting only the units of investment debt for the related cross-currency swap, and it also includes the effect of related interest rate swaps). The interest rate on our variable rate debt is determined by reference to the London Interbank Offered Rate, or LIBOR, (a benchmark rate used for Eurodollar loans), the *Tasa de Interés Interbancaria de Equilibrio* (Equilibrium Interbank Interest Rate, or TIIE), and the *Certificados de la Tesorería* (Treasury Certificates, or CETES) rate. If these reference rates increase, our interest payments would consequently increase.

The table below provides information about our derivative financial instruments that are sensitive to changes in interest rates and exchange rates. The table presents notional amounts and weighted average interest rates by expected contractual maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on the reference rates on December 31, 2016, plus spreads contracted by us. Our derivative financial instruments' current payments are denominated in U.S. dollars and Mexican pesos. All of the payments in the table are presented in Mexican pesos, our reporting currency, utilizing the December 31, 2016 exchange rate of Ps. 20.6640 per U.S. dollar.

The table below also includes the estimated fair value as of December 31, 2016 of:

short and long-term debt, based on the discounted value of contractual cash flows, in which the discount rate is estimated using rates currently offered for debt with similar terms and remaining maturities;

long-term notes payable and capital leases, based on quoted market prices; and

cross-currency swaps and interest rate swaps, based on quoted market prices to terminate the contracts as of December 31, 2016. As of December 31, 2016, the fair value represents an increase in total debt of Ps. 1,036 million more than book value.



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| (in millions)                | At December 31, <sup>(1)</sup> |        |       |        |       |                        | Carrying                         | Fair                             | Carrying  |
|------------------------------|--------------------------------|--------|-------|--------|-------|------------------------|----------------------------------|----------------------------------|---|
|                              | 2017                           | 2018   | 2019  | 2020   | 2021  | 2022 and<br>Thereafter | Value at<br>December<br>31, 2016 | Value at<br>December<br>31, 2016 | Value at<br>December<br>31, 2015 <sup>(1)</sup> |
| of Mexican pesos)            |                                |        |       |        |       |                        |                                  |                                  |   |
| <b>Short-term debt:</b>      |                                |        |       |        |       |                        |                                  |                                  |   |
| <b>Fixed rate debt:</b>      |                                |        |       |        |       |                        |                                  |                                  |   |
| <b>Colombian pesos</b>       |                                |        |       |        |       |                        |                                  |                                  |   |
| Bank loans                   | Ps.                            | Ps.    | Ps.   | Ps.    | Ps.   | Ps.                    | Ps.                              | Ps.                              | Ps. 219   |
| Interest rate                |                                |        |       |        |       |                        |                                  |                                  | 6.5%  |
| <b>Argentine pesos</b>       |                                |        |       |        |       |                        |                                  |                                  |   |
| Bank loans                   | 644                            |        |       |        |       |                        | 644                              | 669                              | 165   |
| Interest rate                | 32.0%                          |        |       |        |       |                        | 32.0%                            |                                  | 26.2%   |
| <b>Chilean pesos</b>         |                                |        |       |        |       |                        |                                  |                                  |   |
| Bank loans                   | 338                            |        |       |        |       |                        | 338                              | 338                              | 1,442   |
| Interest rate                | 4.3%                           |        |       |        |       |                        | 4.3%                             |                                  | 4.2%  |
| Finance leases               |                                |        |       |        |       |                        |                                  |                                  | 10  |
| Interest rate                |                                |        |       |        |       |                        |                                  |                                  | 2.4%  |
| <b>U.S. dollars</b>          |                                |        |       |        |       |                        |                                  |                                  |   |
| Bank loans                   | 206                            |        |       |        |       |                        | 206                              | 208                              |   |
| Interest rate                | 3.4%                           |        |       |        |       |                        | 3.4%                             |                                  |   |
| <b>Variable rate debt:</b>   |                                |        |       |        |       |                        |                                  |                                  |   |
| <b>Colombian pesos</b>       |                                |        |       |        |       |                        |                                  |                                  |   |
| Bank loans                   | 723                            |        |       |        |       |                        | 723                              | 720                              | 235   |
| Interest rate                | 9.1%                           |        |       |        |       |                        | 9.1%                             |                                  | 8.2%  |
| <b>Brazilian reais</b>       |                                |        |       |        |       |                        |                                  |                                  |   |
| Bank loans                   |                                |        |       |        |       |                        |                                  |                                  | 168   |
| Interest rate                |                                |        |       |        |       |                        |                                  |                                  | 14.8%   |
| <b>Chilean pesos</b>         |                                |        |       |        |       |                        |                                  |                                  |   |
| Bank loans                   | 1                              |        |       |        |       |                        | 1                                | 1                                |   |
| Interest rate                | 10.0%                          |        |       |        |       |                        | 10.0%                            |                                  |   |
| <b>Total short-term debt</b> | Ps. 1,912                      | Ps.    | Ps.   | Ps.    | Ps.   | Ps.                    | Ps. 1,912                        | Ps. 1,936                        | Ps. 2,239                                       |
| <b>Long-term debt:</b>       |                                |        |       |        |       |                        |                                  |                                  |   |
| <b>Fixed rate debt:</b>      |                                |        |       |        |       |                        |                                  |                                  |   |
| <b>Euro</b>                  |                                |        |       |        |       |                        |                                  |                                  |   |
| Senior unsecured notes       | Ps.                            | Ps.    | Ps.   | Ps.    | Ps.   | Ps. 21,627             | Ps. 21,627                       | Ps. 22,178                       |   |
| Interest rate                |                                |        |       |        |       | 1.8%                   | 1.8%                             |                                  |   |
| <b>U.S. dollars</b>          |                                |        |       |        |       |                        |                                  |                                  |   |
| Senior notes                 |                                | 20,625 |       | 10,297 |       | 30,781                 | 61,703                           | 64,230                           | Ps. 51,333                                      |
| Interest rate                |                                | 2.4%   |       | 4.6%   |       | 4.4%                   | 3.8%                             |                                  | 3.8%  |
| Senior notes due 2023        |                                |        |       |        |       | 6,117                  | 6,117                            | 5,953                            | 5,068   |
| Interest rate                |                                |        |       |        |       | 2.9%                   | 2.9%                             |                                  | 2.9%  |
| Senior notes due 2043        |                                |        |       |        |       | 14,128                 | 14,128                           | 13,749                           | 11,675  |
| Interest rate                |                                |        |       |        |       | 4.4%                   | 4.4%                             |                                  | 4.4%  |
| Finance leases               | 7                              | 6      | 5     | 2      |       |                        | 20                               | 20                               |   |
| Interest rate                | 4.0%                           | 4.0%   | 3.8%  | 4.0%   |       |                        | 3.9%                             |                                  |   |
| <b>Mexican pesos</b>         |                                |        |       |        |       |                        |                                  |                                  |   |
| Units of investment (UDIs)   | 3,245                          |        |       |        |       |                        | 3,245                            | 3,245                            | 3,385   |
| Interest rate                | 4.2%                           |        |       |        |       |                        | 4.2%                             |                                  | 4.2%  |
| Domestic senior notes        |                                |        |       |        | 2,497 | 7,494                  | 9,991                            | 8,983                            | 9,989   |
| Interest rate                |                                |        |       |        | 8.3%  | 5.5%                   | 6.2%                             |                                  | 6.2%  |
| <b>Brazilian reais</b>       |                                |        |       |        |       |                        |                                  |                                  |   |
| Bank loans                   | 282                            | 227    | 106   | 50     | 41    | 36                     | 742                              | 714                              | 819   |
| Interest rate                | 4.7%                           | 5.1%   | 7.4%  | 5.1%   | 5.1%  | 5.1%                   | 5.3%                             |                                  | 6.0%  |
| Finance leases               |                                |        |       |        |       |                        |                                  |                                  | 460   |
| Interest rate                |                                |        |       |        |       |                        |                                  |                                  | 4.6%  |
| Notes payable                |                                |        | 7,022 |        |       |                        | 7,022                            | 6,547                            |   |

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|                        |           |            |           |            |           |             |                    |             |            |      |             |     |      |
|------------------------|-----------|------------|-----------|------------|-----------|-------------|--------------------|-------------|------------|------|-------------|-----|------|
| Interest rate          | 0.4%      |            |           |            |           | <b>0.4%</b> |                    |             |            |      |             |     |      |
| <b>Argentine pesos</b> |           |            |           |            |           |             |                    |             |            |      |             |     |      |
| Bank loans             |           |            |           |            |           |             |                    |             |            |      | 18          |     |      |
| Interest rate          |           |            |           |            |           |             |                    |             |            |      | 15.3%       |     |      |
| <b>Chilean pesos</b>   |           |            |           |            |           |             |                    |             |            |      |             |     |      |
| Bank loans             | 125       | 39         |           |            |           |             |                    | <b>164</b>  | 164        | 232  |             |     |      |
| Interest rate          | 6.8%      | 7.9%       |           |            |           |             |                    | <b>7.0%</b> |            | 7.5% |             |     |      |
| Finance leases         | 25        | 25         | 23        | 21         | 20        |             |                    |             |            |      | <b>114</b>  | 114 | 92   |
| Interest rate          | 3.5%      | 3.6%       | 3.5%      | 3.3%       | 3.2%      |             |                    |             |            |      | <b>3.4%</b> |     | 3.4% |
| <b>Colombian pesos</b> |           |            |           |            |           |             |                    |             |            |      |             |     |      |
| Finance leases         | 758       |            |           |            |           | 758         |                    |             |            |      | 750         |     |      |
| Interest rate          | 9.6%      |            |           |            |           | 9.6%        |                    |             |            |      |             |     |      |
| Subtotal               | Ps. 3,684 | Ps. 21,680 | Ps. 7,156 | Ps. 10,370 | Ps. 2,558 | Ps. 80,183  | <b>Ps. 125,631</b> | Ps. 126,647 | Ps. 83,071 |      |             |     |      |

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

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| (in millions<br>of Mexican pesos) | At December 31, <sup>(1)</sup> |                   |                  |                   |                  |                        | Carrying                         | Fair                             | Carrying  |
|-----------------------------------|--------------------------------|-------------------|------------------|-------------------|------------------|------------------------|----------------------------------|----------------------------------|---|
|                                   | 2017                           | 2018              | 2019             | 2020              | 2021             | 2022 and<br>Thereafter | Value at<br>December<br>31, 2016 | Value at<br>December<br>31, 2016 | Value at<br>December<br>31, 2015 <sup>(1)</sup> |
| <b>Variable rate debt:</b>        |                                |                   |                  |                   |                  |                        |                                  |                                  |   |
| <b>U.S. dollars</b>               |                                |                   |                  |                   |                  |                        |                                  |                                  |   |
| Bank loans                        | Ps.                            | Ps.               | Ps.              | Ps.               | Ps. 4,218        | Ps.                    | Ps. 4,218                        | Ps. 4,229                        | Ps.   |
| Interest rate                     |                                |                   |                  |                   | 1.6%             |                        | 1.6%                             |                                  |   |
| <b>Mexican pesos</b>              |                                |                   |                  |                   |                  |                        |                                  |                                  |   |
| Domestic senior notes             |                                |                   |                  |                   |                  |                        |                                  |                                  | 2,496   |
| Interest rate                     |                                |                   |                  |                   |                  |                        |                                  |                                  | 3.6%  |
| <b>Argentine pesos</b>            |                                |                   |                  |                   |                  |                        |                                  |                                  |   |
| Bank loans                        | 40                             |                   |                  |                   |                  |                        | 40                               | 40                               | 123   |
| Interest rate                     | 27.8%                          |                   |                  |                   |                  |                        | 27.8%                            |                                  | 32.2%   |
| <b>Brazilian reais</b>            |                                |                   |                  |                   |                  |                        |                                  |                                  |   |
| Bank loans                        | 483                            | 451               | 410              | 308               | 88               | 124                    | 1,864                            | 1,776                            | 584   |
| Interest rate                     | 5.5%                           | 5.5%              | 5.5%             | 5.5%              | 5.5%             | 5.5%                   | 5.5%                             |                                  | 10.1%   |
| Notes payable                     | 10                             | 10                | 6                |                   |                  |                        | 26                               | 23                               |   |
| Interest rate                     | 0.4%                           | 0.4%              | 0.4%             |                   |                  |                        | 0.4%                             |                                  |   |
| <b>Colombian pesos</b>            |                                |                   |                  |                   |                  |                        |                                  |                                  |   |
| Bank loans                        | 793                            | 413               |                  |                   |                  |                        | 1,206                            | 1,213                            | 1,176   |
| Interest rate                     | 9.1%                           | 10.0%             |                  |                   |                  |                        | 9.6%                             |                                  | 6.9%  |
| <b>Chilean pesos</b>              |                                |                   |                  |                   |                  |                        |                                  |                                  |   |
| Bank loans                        | 359                            | 477               | 641              | 1,071             | 706              | 1,097                  | 4,351                            | 4,350                            | 2,175   |
| Interest rate                     | 3.9%                           | 3.9%              | 3.8%             | 3.8%              | 3.7%             | 3.6%                   | 3.7%                             |                                  | 6.0%  |
| Subtotal                          | Ps. 1,685                      | Ps. 1,351         | Ps. 1,057        | Ps. 1,379         | Ps. 5,012        | Ps. 1,221              | Ps. 11,705                       | Ps. 11,701                       | Ps. 6,554                                       |
| <b>Total long-term debt</b>       | <b>Ps. 5,369</b>               | <b>Ps. 23,031</b> | <b>Ps. 8,213</b> | <b>Ps. 11,749</b> | <b>Ps. 7,570</b> | <b>Ps. 81,404</b>      | <b>Ps. 137,336</b>               | <b>Ps. 138,348</b>               | <b>Ps. 89,625</b>                               |

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

| Hedging Derivative Financial Instruments <sup>(1)</sup>         | 2017      | 2018 | 2019  | 2020 | 2021 | 2022 and<br>Thereafter | Total     | Total     |
|---|-----------|------|-------|------|------|------------------------|-----------|-----------|
|   |           |      |       |      |      |                        | 2016      | 2015      |
| (notional amounts in millions of Mexican pesos)                 |           |      |       |      |      |                        |           |           |
| <b>Interest rate swaps:</b>                                     |           |      |       |      |      |                        |           |           |
| <b>Mexican pesos</b>  |           |      |       |      |      |                        |           |           |
| Variable to fixed rate:   |           |      | 77    |      | 727  | 2,787                  | 3,591     | 1,273     |
| Interest pay rate   |           |      |       | 6.5% |      | 7.6%                   | 4.8%      | 6.4%      |
| Interest receive rate   |           |      |       | 4.7% |      | 4.7%                   | 4.1%      | 5.1%      |
| Variable to fixed rate <sup>(2)</sup>                           |           |      |       |      |      |                        |           |           |
| Interest pay rate   |           | 5.9% |       |      |      |                        | 5.9%      | 5.2%      |
| Interest receive rate   |           | 6.0% |       |      |      |                        | 6.0%      | 3.4%      |
| Variable to fixed rate <sup>(3)</sup>                           |           |      |       |      |      |                        |           |           |
| Interest pay rate   |           |      |       |      |      | 7.2%                   | 7.2%      | 7.2%      |
| Interest receive rate   |           |      |       |      |      | 7.4%                   | 7.4%      | 4.8%      |
| <b>Cross-currency swaps:</b>                                    |           |      |       |      |      |                        |           |           |
| <b>Units of investments to Mexican pesos and variable rate:</b> |           |      |       |      |      |                        |           |           |
| Fixed to variable <sup>(2)</sup>                                | Ps. 2,500 | Ps.  | Ps.   | Ps.  | Ps.  | Ps.                    | Ps. 2,500 | Ps. 2,500 |
| Interest pay rate   |           | 5.9% |       |      |      |                        | 5.9%      | 3.4%      |
| Interest receive rate   |           | 4.2% |       |      |      |                        | 4.2%      | 4.2%      |
| <b>U.S. dollars to Mexican pesos</b>                            |           |      |       |      |      |                        |           |           |
| Fixed to variable <sup>(3)</sup>                                |           |      |       |      |      | 11,403                 | 11,403    | 11,403    |
| Interest pay rate   |           |      |       |      |      | 7.4%                   | 7.4%      | 4.8%      |
| Interest receive rate   |           |      |       |      |      | 4.0%                   | 4.0%      | 4.0%      |
| Variable to fixed   |           |      | 9,092 |      |      |                        | 9,092     | 7,571     |

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Interest pay rate

6.0%

**6.0%**

3.5%

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| Hedging Derivative Financial Instruments <sup>(1)</sup> | 2017  | 2018   | 2019  | 2020   | 2021  | 2022  | Total<br>2016 | Total<br>2015 |
|---|-------|--------|-------|--------|-------|---|---------------|---------------|
|   |       |        |       |        |       | and<br>Thereafter                               |               |               |
|   |       |        |       |        |       | (notional amounts in millions of Mexican pesos) |               |               |
| Interest receive rate                                   |       | 2.4%   |       |        |       |   | 2.4%          | 2.4%          |
| Fixed to fixed  |       | 2,376  |       | 10,332 |       | 6,743   | 19,451        | 1,267         |
| Interest pay rate                                       |       | 6.4%   |       | 9.1%   |       | 9.1%  | 8.8%          | 5.7%          |
| Interest receive rate                                   |       | 2.4%   |       | 4.6%   |       | 3.8%  | 4.1%          | 2.9%          |
| <b>U.S. dollars to Brazilian reais</b>                  |       |        |       |        |       |   |               |               |
| Fixed to variable                                       | 207   | 9,195  | 7,022 | 4,786  |       |   | 21,210        | 5,592         |
| Interest pay rate                                       | 14.3% | 12.6%  | 10.1% | 12.9%  |       |   | 11.9%         | 12.7%         |
| Interest receive rate                                   | 3.4%  | 2.5%   | 0.4%  | 2.9%   |       |   | 1.9%          | 2.7%          |
| Variable to variable                                    |       | 18,598 |       |        | 4,236 |   | 22,834        | 17,551        |
| Interest pay rate                                       |       | 12.6%  |       |        | 11.7% |   | 12.4%         | 12.6%         |
| Interest receive rate                                   |       | 2.1%   |       |        | 1.5%  |   | 2.0%          | 2.1%          |
| <b>Chilean pesos</b>                                    |       |        |       |        |       |   |               |               |
| Variable to fixed                                       |       |        |       | 827    |       |   | 827           | 1,097         |
| Interest pay rate                                       |       |        |       | 6.9%   |       |   | 6.9%          | 6.9%          |
| Interest receive rate                                   |       |        |       | 6.2%   |       |   | 6.2%          | 6.8%          |

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

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

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

A hypothetical, instantaneous and unfavorable change of 100 basis points in the average interest rate applicable to variable-rate liabilities held at FEMSA as of December 31, 2016 would increase our interest expense by approximately Ps. 354 million, or 3.7%, over the 12-month period of 2017, assuming no additional debt is incurred during such period, in each case after giving effect to all of our interest and cross-currency swap agreements.

**Foreign Currency Exchange Rate Risk**

Our principal exchange rate risk involves changes in the value of the local currencies, of each country where we operate, relative to the U.S. dollar. In 2016, the percentage of our consolidated total revenues was denominated as follows:

**Total Revenues by Currency at December 31, 2016**

| Region                                    | Currency   | % of Consolidated<br>Total Revenues |
|---|--|-------------------------------------|
| Mexico and Central America <sup>(1)</sup> | Mexican peso and others  | 67%                                 |
| Venezuela <sup>(2)</sup>                  | Bolivar fuerte   | 5%                                  |
| South America                             | Brazilian reais, Argentine peso,<br>Colombian peso, Chilean peso | 28%                                 |

(1) Mexican peso, Quetzal, Balboa, Colon, Cordoba and U.S. dollar.

(2) We have translated the revenues for the entire year using DICOM exchange rate. As of December 31, 2016, this rate was 673.76 bolivars per US\$ 1.00. We estimate that a majority of our consolidated costs and expenses are denominated in Mexican pesos for Mexican subsidiaries and in the aforementioned currencies for the foreign subsidiaries, which are principally subsidiaries of Coca-Cola FEMSA. Substantially all of our costs and expenses denominated in a foreign currency, other than the functional currency of each country where we operate, are denominated in U.S. dollars. As of December 31, 2016, after giving effect to all cross-currency swaps and interest rate swaps, 36.2% of our long-term indebtedness was denominated in Mexican pesos, (4.1%) was denominated in U.S. dollars, 0.9% was denominated in Colombian pesos, 17.2% was denominated in Euros, 46.1% was denominated in Brazilian reais and 3.7% was denominated in Chilean pesos. We also have short-term

indebtedness, which mostly consists of bank loans in Colombian pesos, Argentine pesos, Chilean pesos and U.S. dollars. Decreases in the value of the different currencies relative to the U.S. dollar will increase the cost of our foreign currency denominated operating costs and expenses, and the debt service obligations with respect to our foreign currency-denominated indebtedness. A depreciation of the Mexican peso relative to the U.S. dollar will also result in foreign exchange losses, as the Mexican peso value of our foreign currency-denominated long-term indebtedness is increased.

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Our exposure to market risk associated with changes in foreign currency exchange rates relates primarily to U.S. dollar and Euro-denominated debt obligations as shown in the interest risk table above. We occasionally utilize financial derivative instruments to hedge our exposure to the U.S. dollar relative to the Mexican peso and other currencies. Also, we occasionally use non-derivative financial instruments to hedge our exposure to the Euro relative to the Mexican peso, regarding our net investment in Heineken.

As of December 31, 2016, we had forward agreements that met the hedging criteria for accounting purposes, to hedge our transactions denominated in U.S. dollars and Euros. The notional amount of these forward agreements was Ps. 8,265 million, for which we have recorded a fair value asset of Ps. 117 million. The maturity date of these forward agreements is in 2017. The fair value of foreign currency forward contracts is estimated based on the quoted market price of each agreement at year-end assuming the same maturity dates originally contracted for. For the year ended December 31, 2016, a loss of Ps. 160 million on expired forward agreements was recorded in our consolidated results.

As of December 31, 2015, we had forward agreements that met the hedging criteria for accounting purposes, to hedge our transactions denominated in U.S. dollars and Euros. The notional amount of these forward agreements was Ps. 6,735 million, for which we have recorded a fair value asset of Ps. 299 million. The maturity date of these forward agreements was in 2016. The fair value of foreign currency forward contracts is estimated based on the quoted market price of each agreement at year-end assuming the same maturity dates originally contracted for. For the year ended December 31, 2015, a gain of Ps. 180 million was recorded in our consolidated results.

As of December 31, 2014, we had forward agreements that met the hedging criteria for accounting purposes, to hedge our transactions denominated in U.S. dollars and Euros. The notional amount of these forward agreements was Ps. 5,603 million, for which we have recorded a fair value asset of Ps. 272 million. The maturity date of these forward agreements was in 2015 and 2016. The fair value of foreign currency forward contracts is estimated based on the quoted market price of each agreement at year-end assuming the same maturity dates originally contracted for. For the year ended December 31, 2014, a loss of Ps. 38 million was recorded in our consolidated results.

As of December 31, 2016, we have not had options to purchase U.S. dollars to reduce our exposure to the risk of exchange rate fluctuations.

As of December 31, 2015, we had options to purchase U.S. dollars to reduce our exposure to the risk of exchange rate fluctuations. The notional amount of these options was Ps. 1,612 million, for which we have recorded a net fair value asset of Ps. 65 million as part of cumulative other comprehensive income. The maturity date of these options was in 2016.

As of December 31, 2014, we had options to purchase U.S. dollars to reduce our exposure to the risk of exchange rate fluctuations. The notional amount of these options was Ps. 402 million, for which we have recorded a net fair value asset of Ps. 56 million as part of cumulative other comprehensive income. The maturity date of these options was in 2015.

As of December 31, 2016, we have long-term debt in the amount of 1,000. We have designated a non-derivative financial liability as a hedge on the net investment in our stake hold in Heineken. We recognized a foreign exchange loss, net of tax, of Ps. 1,443 million, which is as part of the exchange differences on translation of foreign operation within the cumulative other comprehensive income.

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The following table illustrates the effects that hypothetical fluctuations in the exchange rates of the U.S. dollar and the Euro relative to the Mexican peso, and the U.S. dollar relative to the Brazilian reais and Colombian peso, would have on our equity and profit or loss:

| Foreign Currency Risk <sup>(1)</sup> | Change in Exchange<br>Rate | Effect on Equity |
|--------------------------------------|----------------------------|------------------|
| <b>2016</b>                          |                            |                  |
| FEMSA <sup>(2)</sup>                 | +17%MXN/EUR                | Ps. (293)        |
|                                      | -17% MXN/EUR               | 293              |
|                                      | +11%CLP/USD                | 12               |
|                                      | -11% CLP/USD               | (12)             |
| Coca-Cola FEMSA                      | +17%MXN/USD                | 916              |
|                                      | -17%MXN/USD                | (916)            |
|                                      | +18%BRL/USD                | 203              |
|                                      | -18%BRL/USD                | (203)            |
|                                      | +18%COP/USD                | 255              |
|                                      | -18%COP/USD                | (255)            |
| <b>2015</b>                          |                            |                  |
| FEMSA <sup>(2)</sup>                 | +14%MXN/EUR                | Ps. (319)        |
|                                      | -14% MXN/EUR               | 319              |
|                                      | +10%CLP/USD                | 9                |
|                                      | -10% CLP/USD               | (9)              |
| Coca-Cola FEMSA                      | +11%MXN/USD                | (197)            |
|                                      | -11%MXN/USD                | 197              |
|                                      | +21%BRL/USD                | (387)            |
|                                      | -21%BRL/USD                | 387              |
|                                      | +17%COP/USD                | (113)            |
|                                      | -17%COP/USD                | 113              |
|                                      | +36%ARS/USD                | (231)            |
|                                      | -36%ARS/USD                | 231              |
| <b>2014</b>                          |                            |                  |
| FEMSA <sup>(2)</sup>                 | +9%MXN/EUR                 | Ps. (278)        |
|                                      | -9% MXN/EUR                | 278              |
| Coca-Cola FEMSA                      | +7%MXN/USD                 | 119              |
|                                      | -7%MXN/USD                 | (119)            |
|                                      | +14%BRL/USD                | 96               |
|                                      | -14%BRL/USD                | (96)             |
|                                      | +9%COP/USD                 | 42               |
|                                      | -9%COP/USD                 | (42)             |
|                                      | +11%ARS/USD                | 22               |
|                                      | -11%ARS/USD                | (22)             |

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

(2) The sensitivity analysis effects include all subsidiaries of the Company, except Coca-Cola FEMSA.

As of December 31, 2016, we had (i) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 2,707 million that expire in 2017, for which we have recorded a net fair value asset of Ps. 1,155 million; (ii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 39,262 million that expire in 2018, for which we have recorded a net fair value liability of Ps. 1,149 million; (iii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 7,022 million that expire in 2019, for which we have recorded a net fair value liability of Ps. 265 million; (iv) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 19,474 million that expire in 2020, for which we have recorded a net fair value liability of Ps. 44 million; (v) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 5,076 million that expire in 2021, for which we have recorded a net fair value liability of Ps. 100 million; (vi) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 12,670 million that expire in 2023, for which we have recorded a net fair value asset of Ps. 9,057 million; (vii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 925 million that expire in 2026, for which we have recorded a net fair value liability of Ps.



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131 million; and (viii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 5,476 million that expire in 2027 for which we have recorded a net fair value asset of Ps. 125 million.

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As of December 31, 2015, we had (i) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 2,711 million that expire in 2017, for which we have recorded a net fair value asset of Ps. 1,159 million; (ii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 30,714 million that expire in 2018, for which we have recorded a net fair value asset of Ps. 2,216 million; (iii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 4,034 million that expire in 2020, for which we have recorded a net fair value liability of Ps. 116 million; and (iv) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 12,670 million that expire in 2023, for which we have recorded a net fair value asset of Ps. 4,859 million.

As of December 31, 2014, we had (i) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 30 million that expire in 2015, for which we have recorded a net fair value asset of Ps. 6 million; (ii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 2,711 million that expire in 2017, for which we have recorded a net fair value asset of Ps. 1,209 million; (iii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 33,410 million that expire in 2018, for which we have recorded a net fair value asset of Ps. 3,002 million; (iv) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 369 million that expire in 2019, for which we have recorded a net fair value asset of Ps. 15 million; (v) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 12,670 million that expire in 2023, for which we have recorded a net fair value asset of Ps. 2,060 million.

Certain cross-currency swap instruments did not meet the hedging criteria for accounting purposes. For the year ended December 31, 2016, no change in the estimated fair value was recorded in the income statement. Nonetheless, for the years ended December 31, 2015 and 2014; consequently, changes in the estimated fair value were recorded in the income statement. The changes in fair value of these contracts represented a loss of Ps 20 million in 2015 and a gain of Ps. 59 million in 2014.

A hypothetical, instantaneous and unfavorable 10% devaluation of the Mexican peso relative to the U.S. dollar occurring on December 31, 2016 would result in a foreign exchange loss decreasing our consolidated net income by approximately Ps. 1,448 million over the 12-month period of 2017, reflecting greater foreign exchange loss related to our U.S. dollar denominated indebtedness, net of a gain in the cash balances held by us in U.S. dollars and Euros.

As of April 12, 2017, the exchange rates relative to the U.S. dollar of all the countries where we operate, as well as their devaluation/revaluation effect compared to December 31, 2016, were as follows:

| Country    | Currency                      | Exchange Rate<br>as of April 12,<br>2016 | (Devaluation)<br>/<br>Revaluation |
|------------|-------------------------------|--|-----------------------------------|
| Mexico     | Mexican peso                  | 18.69                                    | 9.5%                              |
| Brazil     | Brazilian reais               | 3.15                                     | 3.5%                              |
| Venezuela  | Bolivar fuerte <sup>(1)</sup> | 713.96                                   | (6.0)%                            |
| Colombia   | Colombian peso                | 2,868.60                                 | 4.4%                              |
| Argentina  | Argentine peso                | 15.19                                    | 4.4%                              |
| Costa Rica | Colon                         | 569.28                                   | (1.5)%                            |
| Guatemala  | Quetzal                       | 7.34                                     | 2.4%                              |
| Nicaragua  | Cordoba                       | 29.73                                    | (1.4)%                            |
| Panama     | U.S. dollar                   | 1.00                                     |                                   |
| Euro Zone  | Euro                          | 0.94                                     | 0.9%                              |
| Peru       | Nuevo sol                     | 3.26                                     | 3.0%                              |
| Chile      | Chilean peso                  | 652.80                                   | 2.2%                              |

(1) DICOM exchange rate.

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A hypothetical, instantaneous and unfavorable 10% devaluation in the value of the currencies in each of the countries where we operate, relative to the U.S. dollar, occurring on December 31, 2016, would produce a reduction (or gain) in stockholders' equity as follows:

| Country    | Currency        | Reduction in<br>Stockholders' Equity<br>(in millions of Mexican pesos) |
|------------|-----------------|--|
| Mexico     | Mexican peso    | 1,306  |
| Brazil     | Brazilian reais | 3,270  |
| Venezuela  | Bolivar fuerte  | 443  |
| Colombia   | Colombian peso  | 1,279  |
| Costa Rica | Colon           | 467  |
| Argentina  | Argentine peso  | 128  |
| Guatemala  | Quetzal         | 103  |
| Nicaragua  | Cordoba         | 111  |
| Panama     | U.S. dollar     | 305  |
| Peru       | Nuevo sol       | 5  |
| Chile      | Chilean peso    | 814  |
| Euro Zone  | Euro            | 9,259  |
| U.S.A      | U.S. dollar     | 144  |

**Equity Risk**

As of December 31, 2016, 2015 and 2014, we did not have any equity derivative agreements, other than as described in Notes 4.1 and 20.7 of our audited consolidated financial statements.

**Commodity Price Risk**

We entered into various derivative contracts to hedge the cost of certain raw materials that are exposed to variations of commodity price exchange rates. As of December 31, 2016, we had various derivative instruments contracts with maturity dates through 2017, notional amounts of Ps. 646 million and a fair value asset of Ps. 375 million. The results of our commodity price contracts for the years ended December 31, 2016, 2015, and 2014, were a gain of Ps. 241 million, loss of Ps. 619 million, and loss of Ps. 291 million, respectively, which were recorded in the results of each year.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES****ITEM 12A. DEBT SECURITIES**

Not applicable.

**ITEM 12B. WARRANTS AND RIGHTS**

Not applicable.

**ITEM 12C. OTHER SECURITIES**

Not applicable.

**ITEM 12D. AMERICAN DEPOSITARY SHARES**

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The Bank of New York Mellon serves as the depository for our ADSs. Holders of our ADSs, evidenced by ADRs, are required to pay various fees to the depository, and the depository may refuse to provide any service for which a fee is assessed until the applicable fee has been paid.

ADS holders are required to pay the depository amounts in respect of expenses incurred by the depository or its agents on behalf of ADS holders, including expenses arising from compliance with applicable law, taxes or other governmental charges, cable, telex and facsimile transmission, or the conversion of foreign currency into U.S. dollars. The depository may decide in its sole discretion to seek payment by either billing holders or by deducting the fee from one or more cash dividends or other cash distributions.

ADS holders are also required to pay additional fees for certain services provided by the depository, as set forth in the table below.

| <b>Depository service</b>   | <b>Fee payable by ADS holders</b>                 |
|---|---|
| Issuance and delivery of ADSs, including in connection with share distributions, stock splits | Up to US\$ 5.00 per 100 ADSs (or portion thereof) |
| Distribution of dividends <sup>(1)</sup>  | Up to US\$ 0.02 per ADS                           |
| Withdrawal of shares underlying ADSs  | Up to US\$ 5.00 per 100 ADSs (or portion thereof) |

(1) As of the date of this annual report, holders of our ADSs were not required to pay additional fees with respect to this service.

**Direct and indirect payments by the depository**

The depository pays us an agreed amount, which includes reimbursements for certain expenses we incur in connection with the ADS program. These reimbursable expenses include legal and accounting fees, listing fees, investor relations expenses and fees payable to service providers for the distribution of material to ADS holders. For the year ended December 31, 2016, this amount was US\$ 496,359.50.

**ITEMS 13-14. NOT APPLICABLE**

**ITEM 15. CONTROLS AND PROCEDURES**

**(a) Disclosure Controls and Procedures**

We have evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2016. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (or the Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

**(b) Management's annual report on internal control over financial reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework, as issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation under the 2013 framework in Internal Controls Integrated Framework, as issued by the Committee of Sponsoring Organizations of the Treadway Commission, our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

Our management's assessment and conclusion on the effectiveness of internal control over financial reporting as of December 31, 2016 excludes, in accordance with an accommodation provided by the SEC, an assessment of the internal control over financial reporting of Group Vonpar, which Coca-Cola FEMSA acquired in December 2016 and other businesses acquired in 2016 by us. These acquisitions collectively represented 4.6% and 4.2% of our total and net assets, respectively, as of December 31, 2016, and 1.0% and 0.5% of our revenues and net income, respectively, for the year ended December 31, 2016. No material changes in our internal control over financial reporting were identified as a result of these transactions.

The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by Mancera, S.C., a member practice of Ernst & Young Global Limited, an independent registered public accounting firm, as stated in its report included herein.

**(c) Attestation Report of the Registered Public Accounting Firm**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Board of Directors and Shareholders of

Fomento Económico Mexicano, S.A.B. de C.V.:

We have audited Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the 2013 Framework) (the COSO criteria). Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards, as issued by the International Accounting Standard Board. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standard Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Vonpar, S.A. and its subsidiaries (collectively "Vonpar") which was acquired on December 2016 and other businesses acquired in 2016, which are included in the 2016 consolidated financial statements of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries, and constituted 4.6 % and 4.2 % of Fomento Económico Mexicano, S.A.B. de C.V.'s total and net assets respectively, as of December 31, 2016 and 1.0% and 0.5 % of revenues and net income respectively, for the year then ended. Our audit of internal control over financial reporting of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries, also did not include an evaluation of the internal control over financial reporting of Vonpar and these other businesses.

In our opinion, Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2016 and our report dated April 21, 2017 expressed an unqualified opinion thereon.

MANCERA, S.C.

A member firm of

Ernst & Young Global Limited

/s/ MANCERA, S.C

Monterrey, N.L., Mexico

April 21, 2017

**(d) Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting during 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our shareholders and our board of directors have designated José Manuel Canal Hernando, an independent director under the Mexican Securities Law and applicable U.S. Securities Laws and NYSE listing standards, as an audit committee financial expert within the meaning of this Item 16A. See **Item 6. Directors, Senior Management and Employees Directors.**





**Table of Contents****ITEM 16B. CODE OF ETHICS**

We have adopted a code of ethics, within the meaning of this Item 16B of Form 20-F. Our code of ethics applies to our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics is available on our website at [www.femsa.com](http://www.femsa.com). If we amend the provisions of our code of ethics that apply to our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES****Audit and Non-Audit Fees**

For the fiscal years ended December 31, 2016, 2015 and 2014, Mancera, S.C., a member practice of Ernst & Young Global Limited, was our auditor.

The following table summarizes the aggregate fees billed to us in 2016, 2015 and 2014 by Mancera, S.C., which is an independent registered public accounting firm, during the fiscal years ended December 31, 2016, 2015 and 2014:

|                    | Year ended December 31,        |                |                |
|--------------------|--------------------------------|----------------|----------------|
|                    | 2016                           | 2015           | 2014           |
|                    | (in millions of Mexican pesos) |                |                |
| Audit fees         | Ps. 111                        | Ps. 101        | Ps. 101        |
| Audit-related fees | 15                             | 2              | 3              |
| Tax fees           | 14                             | 7              | 15             |
| Other fees         | 4                              | 36             | 5              |
| <b>Total</b>       | <b>Ps. 144</b>                 | <b>Ps. 146</b> | <b>Ps. 124</b> |

*Audit fees.* Audit fees in the above table represent the aggregate fees billed in connection with the audit of our annual financial statements, as well as to other limited procedures in connection with our quarterly financial information and other statutory and regulatory audit activities.

*Audit-related fees.* Audit-related fees in the above table are the aggregate fees billed for assurance and other services related to the performance of the audit, mainly in connection with bond issuance processes and other special audits and reviews.

*Tax fees.* Tax fees in the above table are fees billed for services based upon existing facts and prior transactions in order to document, compute, and obtain government approval for amounts included in tax filings such as value-added tax return assistance and transfer pricing documentation.

*Other fees.* Other fees in the above table include mainly fees billed for due diligence services.

**Audit Committee Pre-Approval Policies and Procedures**

We have adopted pre-approval policies and procedures under which all audit and non-audit services provided by our external auditors must be pre-approved by the audit committee as set forth in the Audit Committee's charter. Any service proposals submitted by external auditors need to be discussed and approved by the Audit Committee during its meetings, which take place at least four times a year. Once the proposed service is approved, we or our subsidiaries formalize the engagement of services. The approval of any audit and non-audit services to be provided by our external auditors is specified in the minutes of our Audit Committee. In addition, the members of our board of directors are briefed on matters discussed by the different committees of our board of directors.

**Table of Contents****ITEM 16D. NOT APPLICABLE****ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

We did not purchase any of our equity securities in 2016. The following table presents purchases by trusts that we administer in connection with our stock incentive plans, which purchases may be deemed to be purchases by an affiliated purchaser of us. See **Item 6. Directors, Senior Management and Employees EVA Stock Incentive Plan.**

**Purchases of Equity Securities**

| Period     | Total<br>Number of<br>BD Units<br>Purchased | Average<br>Price<br>Paid per<br>BD Units | Total Number of<br>Shares<br>(or Units)<br>Purchased<br>as<br>Part of<br>Publicly<br>Announced Plans<br>or Programs | Maximum Number (or<br>Appropriate<br>U.S.<br>dollar Value) of Shares<br>(or Units) that May Yet<br>Be Purchased<br>Under<br>the Plans or<br>Programs |
|------------|---|--|---|--|
| March 2016 | 2,375,196                                   | Ps. 164.49                               |   |  |

**ITEM 16F. NOT APPLICABLE****ITEM 16G. CORPORATE GOVERNANCE**

Pursuant to Rule 303A.11 of the Listed Company Manual of the NYSE, we are required to provide a summary of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards. We are a Mexican corporation with shares listed on the Mexican Stock Exchange. Our corporate governance practices are governed by our bylaws, the Mexican Securities Law and the regulations issued by the CNBV. We also disclose the extent of compliance with the *Código de Mejores Prácticas Corporativas* (Mexican Code of Best Corporate Practices), which was created by a group of Mexican business leaders and was endorsed by the Mexican Stock Exchange.

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The table below discloses the significant differences between our corporate governance practices and the NYSE standards.

**NYSE Standards**

**Directors independence:** A majority of the board of directors must be independent.

**Executive sessions:** Non-management directors must meet at regularly scheduled executive sessions without management.

**Nominating/Corporate Governance Committee:** A nominating/corporate governance committee composed entirely of independent directors is required.

**Our Corporate Governance Practices**

**Directors independence:** Pursuant to the Mexican Securities Law, we are required to have a board of directors with a maximum of 21 members, 25% of whom must be independent.

The Mexican Securities Law sets forth, in article 26, the definition of independence, which differs from the one set forth in Section 303A.02 of the Listed Company Manual of the NYSE. Generally, under the Mexican Securities Law, a director is not independent if such director: (i) is an employee or a relevant officer of the company or its subsidiaries; (ii) is an individual with significant influence over the company or its subsidiaries; (iii) is a shareholder or participant of the controlling group of the company; (iv) is a client, supplier, debtor, creditor, partner or employee of an important client, supplier, debtor or creditor of the company; or (v) is a family member of any of the aforementioned persons.

In accordance with the Mexican Securities Law, our shareholders are required to make a determination as to the independence of our directors at an ordinary meeting of our shareholders, though the CNBV may challenge that determination. Our board of directors is not required to make a determination as to the independence of our directors.

**Executive sessions:** Under our bylaws and applicable Mexican law, our non-management and independent directors are not required to meet in executive sessions.

Our bylaws state that the board of directors will meet at least four times a year, following the end of each quarter, to discuss our operating results and progress in achieving strategic objectives. Our board of directors can also hold extraordinary meetings.

**Nominating/Corporate Governance Committee:** We are not required to have a nominating committee, and the Mexican Code of Best Corporate Practices does not provide for a nominating committee.

However, Mexican law requires us to have a Corporate Practices Committee. Our Corporate Practices Committee is composed of three members, and as required by the Mexican Securities Law and our bylaws, the three members are independent, and its chairman is elected at the shareholders meeting.

**Compensation Committee:** A compensation committee composed entirely independent directors is required.

**Compensation Committee:** We do not have a committee that exclusively oversees compensation issues. Our Corporate Practices Committee, composed entirely of independent directors, reviews and recommends management compensation programs in order to ensure that they are aligned with shareholders' interests and corporate performance.

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**NYSE Standards**

**Audit Committee:** Listed companies must have an audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act and the NYSE independence standards.

**Equity compensation plan:** Equity compensation plans require shareholder approval, subject to limited exemptions.

**Code of business conduct and ethics:** Corporate governance guidelines and a code of conduct and ethics are required, with disclosure of any waiver for directors or executive officers.

**Our Corporate Governance Practices**

**Audit Committee:** We have an Audit Committee of four members, as required by the Mexican Securities Law. Each member of the Audit Committee is an independent director, and its chairman is elected at the shareholders' meeting.

**Equity compensation plan:** Shareholder approval is not required under Mexican law or our bylaws for the adoption and amendment of an equity compensation plan. Such plans should provide for general application to all executives. Our current equity compensation plans have been approved by our board of directors.

**Code of business conduct and ethics:** We have adopted a code of ethics, within the meaning of Item 16B of SEC Form 20-F. Our code of ethics applies to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics is available on our website at [www.femsa.com](http://www.femsa.com). If we amend the provisions of our code of ethics that apply to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

**ITEM 16H. NOT APPLICABLE**

**ITEM 17. NOT APPLICABLE**

**ITEM 18. FINANCIAL STATEMENTS**  
**See pages F-1 through F-184, incorporated herein by reference.**

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**ITEM 19. EXHIBITS**

- 1.1 Bylaws (*estatutos sociales*) of Fomento Económico Mexicano, S.A.B. de C.V., approved on April 22, 2008, together with an English translation thereof (incorporated by reference to Exhibit 1.1 of FEMSA's Annual Report on Form 20-F filed on June 30, 2008 (File No. 333-08752)).
- 1.2 Share Exchange Agreement by and between Heineken Holding N.V., Heineken N.V., Compañía Internacional de Bebidas, S.A. de C.V., Emprex and FEMSA dated as of January 11, 2010 (incorporated by reference to Exhibit 1.2 of FEMSA's Annual Report on Form 20-F filed on June 25, 2010 (File No. 333-08752)).
- 1.3 First Amendment to Share Exchange Agreement by and between Heineken Holding N.V., Heineken N.V., Compañía Internacional de Bebidas, S.A. de C.V., Emprex and FEMSA dated as of April 26, 2010 (incorporated by reference to Exhibit 1.3 of FEMSA's Annual Report on Form 20-F filed on June 25, 2010 (File No. 333-08752)).
- 1.4 Corporate Governance Agreement, dated April 30, 2010, between Heineken Holding N.V., Heineken N.V., L Arche Green N.V., FEMSA and CB Equity. (incorporated by reference to Exhibit 1.4 of FEMSA's Annual Report on Form 20-F filed on April 27, 2012 (File No. 333-08752)).
- 2.1 Deposit Agreement, as further amended and restated as of May 11, 2007, among FEMSA, The Bank of New York Mellon (formerly The Bank of New York), and all owners and holders from time to time of any American Depositary Receipts, including the form of American Depositary Receipt (incorporated by reference to FEMSA's registration statement on Form F-6 filed on April 30, 2007 (File No. 333-142469)).
- 2.2 Specimen certificate representing a BD Unit, consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, together with an English translation (incorporated by reference to FEMSA's registration statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).
- 2.3 Indenture dated as of February 5, 2010 among Coca-Cola FEMSA and The Bank of New York Mellon (incorporated by reference to Exhibit 2.2 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
- 2.4 First Supplemental Indenture dated as of February 5, 2010 among Coca-Cola FEMSA and The Bank of New York Mellon and the Bank of New York Mellon (Luxembourg) S.A. (incorporated by reference to Exhibit 2.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
- 2.5 Second Supplemental Indenture dated as of April 1, 2011 among Coca-Cola FEMSA, Propimex, S. de R.L. de C.V. (formerly Propimex, S.A. de C.V.), as Guarantor, and The Bank of New York Mellon (incorporated by reference to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 17, 2011 (File No. 001-12260)).
- 2.6 Indenture dated as of April 8, 2013 between FEMSA, as Issuer, and The Bank of New York Mellon, as Trustee, Security Registrar, Paying Agent, and Transfer Agent (incorporated by reference to Exhibit 4.1 of FEMSA's registration statement on Form F-3 filed on April 9, 2013 (File No. 333-187806)).
- 2.7 First Supplemental Indenture, dated as of May 10, 2013, between FEMSA, as Issuer, and The Bank of New York Mellon, as Trustee, Security Registrar, Paying Agent and Transfer Agent, and The Bank of New York Mellon SA/NV, Dublin Branch, as Irish Paying Agent, including the form of global note therein (incorporated by reference to Exhibit 1.4 to FEMSA's registration statement on Form 8-A filed on May 17, 2013 (File No. 001-35934)).
- 2.8 Third Supplemental Indenture dated as of September 6, 2013 among Coca-Cola FEMSA, as issuer, Propimex, S. de R.L. de C.V. (formerly Propimex, S.A. de C.V.), as existing guarantor, Comercializadora La Pureza 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., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V. and Yoli de Acapulco, S.A. de C.V., as additional guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 4.7 to Coca-Cola FEMSA's Registration Statement on Form F-3 filed on November 8, 2013 (File No.333-187275)).

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- 2.9 Fourth Supplemental Indenture dated as of October 18, 2013 among Coca-Cola FEMSA, as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza 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., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V. and Yoli de Acapulco, S.A. de C.V., as existing guarantors, Controladora Interamericana de Bebidas, S. de R.L. de C.V., as additional guarantor, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 4.8 to Coca-Cola FEMSA's Registration Statement on Form F-3 filed on November 8, 2013 (File No. 333-187275)).
- 2.10 Fifth Supplemental Indenture dated as of November 26, 2013 among Coca-Cola FEMSA, as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza 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., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V., Yoli de Acapulco, S.A. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 4.1 to Coca-Cola FEMSA's Form 6-K filed on December 5, 2013 (File No.1-2260)).
- 2.11 Sixth Supplemental Indenture dated as of January 21, 2014 among Coca-Cola FEMSA, as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza 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., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V., Yoli de Acapulco, S.A. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 4.1 to Coca-Cola FEMSA's Form 6-K filed on January 27, 2014 (File No.1-2260)).
- 2.12 Seventh Supplemental Indenture dated as of November 23, 2015 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza 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., Yoli de Acapulco, S. de R.L. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V., as successor guarantor, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 2.9 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 15, 2016 (File No. 1-12260)).
- 2.13 Second Supplemental Indenture, dated as of March 18, 2016, between FEMSA, as Issuer, and The Bank of New York Mellon, as Trustee, Security Registrar, Paying Agent and Transfer Agent, and The Bank of New York Mellon SA/NV, Dublin Branch, as Irish Paying Agent, including the form of global note therein (incorporated by reference to Exhibit 2.13 of FEMSA's Annual Report on Form 20-F filed on April 21, 2016 (File No. 1-35934)).
- 3.1 Amended Voting Trust Agreement among certain principal shareholders of FEMSA together with an English translation (incorporated by reference to FEMSA's Schedule 13D as amended filed on August 11, 2005 (File No. 005-54705)).
- 4.1 Amended and Restated Shareholders' Agreement, dated as of July 6, 2002, by and among CIBSA, Emprex, The Coca-Cola Company and Inmex (incorporated by reference to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).
- 4.2 Amendment, dated May 6, 2003, to the Amended and Restated Shareholders' Agreement dated July 6, 2002, among CIBSA, Emprex, The Coca-Cola Company, Inmex, Atlantic Industries, Dulux CBAI 2003 B.V. and Dulux CBEXINMX 2003 B.V. (incorporated by reference to Exhibit 4.14 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).
- 4.3 Second Amendment, dated February 1, 2010, to the Amended and Restated Shareholders' Agreement dated July 6, 2002, among CIBSA, Emprex, The Coca-Cola Company, Inmex and Dulux CBAI 2003 B.V. (incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).

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- 4.4 Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).
- 4.5 Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 333-67380)).
- 4.6 Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (incorporated by reference to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).
- 4.7 Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 333-67380)).
- 4.8 Amendments, dated May 17 and July 20, 1995, to Bottler Agreement and Letter of Agreement, dated August 22, 1994, each with respect to operations in Argentina between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- 4.9 Bottler Agreement, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- 4.10 Supplemental Agreement, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.6 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- 4.11 Amendment, dated February 1, 1996, to Bottler Agreement between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA, dated December 1, 1995 (with English translation) (incorporated by reference to Exhibit 10.5 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- 4.12 Amendment, dated May 22, 1998, to Bottler Agreement with respect to the former SIRSA territory, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 4.12 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).
- 4.13 Supply Agreement, dated June 21, 1993, between Coca-Cola FEMSA and FEMSA Empaques (incorporated by reference to FEMSA's registration statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).
- 4.14 Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Golfo, S.A. de C.V. and The Coca-Cola Company with respect to operations in Golfo, Mexico (English translation) (incorporated by reference to Exhibit 4.7 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).
- 4.15 Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Bajio, S.A. de C.V., and The Coca-Cola Company with respect to operations in Bajio, Mexico (English translation). (incorporated by reference to Exhibit 4.8 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).
- 4.16 Coca-Cola Tradename License Agreement dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to FEMSA's Registration Statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).



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- 4.17 Amendment to the Trademark License Agreement, dated December 1, 2002, entered by and among Administración de Marcas, S.A. de C.V., as proprietor, and The Coca-Cola Export Corporation Mexico branch, as licensee (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-2290)).
- 4.18 Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Golfo, S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.19 Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Bajío, S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.20 Supply Agreement dated April 3, 1998, between ALPLA Fábrica de Plásticos, S.A. de C.V. and Industria Embotelladora de México, S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 4.18 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on July 1, 2002 (File No. 1-12260)).
- 4.21 Services Agreement, dated November 7, 2000, between Coca-Cola FEMSA and FEMSA Logística (with English translation) (incorporated by reference to Exhibit 4.15 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).
- 4.22 Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Bajío, S.A. de C.V. (with English translation) (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.23 Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Golfo, S.A. de C.V. (with English translation) (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.24 Memorandum of Understanding, dated as of March 11, 2003, by and among Panamco, as seller, and The Coca-Cola Company, as buyer (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.25 Bottler Agreement, dated August 22, 1994, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.1 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).
- 4.26 Supplemental Agreement, dated August 22, 1994, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.2 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).
- 4.27 The Coca-Cola Company Memorandum to Steve Heyer from Jose Antonio Fernández, dated December 22, 2002 (incorporated by reference to Exhibit 10.1 to FEMSA's Registration Statement on Amendment No. 1 to the Form F-3 filed on September 20, 2004 (File No. 333-117795)).
- 4.28 Shareholders Agreement dated as of January 25, 2013, by and among KOF Philippines, Coca-Cola South Asia Holdings, Inc., Coca-Cola Holdings (Overseas) Limited and Controladora de Inversiones en Bebidas Refrescantes, S.L. (incorporated by reference to Exhibit 4.27 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on March 15, 2013 (File No. 1-12260)).
- 8.1 Significant Subsidiaries.
- 12.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 21, 2017.
- 12.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 21, 2017.
- 13.1 Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 21, 2017.

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**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 21, 2017

Fomento Económico Mexicano, S.A.B. de C.V.

By: /s/ Miguel Eduardo Padilla Silva  
Miguel Eduardo Padilla Silva

Chief Financial and Corporate Officer

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of

Fomento Económico Mexicano, S.A.B. de C.V.

We have audited the accompanying consolidated statements of financial position of Fomento Económico Mexicano, S.A.B. de C.V. and its subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated statement of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of Heineken N.V. (a corporation in which the Company has a 12.53% interest) which is majority owned by Heineken Holding N.V. (a corporation in which the Company has a 14.94% interest) (collectively Heineken). In the consolidated financial statements, the Company's investment in Heineken includes Ps. 57,618 (.2,648) and Ps.51,265 (.2,707) million at December 31, 2016 and 2015, respectively, and equity in the net income of Heineken of Ps. 6,430 (.308) Ps. 6,567 (.378) and Ps.5,362 (.303) million for the three years in the period ended December 31, 2016, which are exclusive of the impact of goodwill and other adjustments recorded by the Company. The financial statements of Heineken N.V., which reflect the amounts listed above, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts specified above, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to below present fairly, in all material respects, the consolidated financial position of Fomento Económico Mexicano, S.A.B. de C.V. and its subsidiaries as of December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Fomento Económico Mexicano, S.A.B. de C.V. and its subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated April 21, 2017 expressed an unqualified opinion thereon.

**MANCERA, S.C.**

A member firm of

Ernst & Young Global Limited

**/s/ MANCERA, S.C.**

Monterrey, N.L., México

April 21, 2017

**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MEXICO***Consolidated Statements of Financial Position*

As of December 31, 2016 and 2015.

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.)

|  | Note | December<br>2016 (*) | December<br>2016   | December 2015      |
|--|------|----------------------|--------------------|--------------------|
| <b>ASSETS</b>                                |      |                      |                    |                    |
| <b>Current Assets:</b>                       |      |                      |                    |                    |
| Cash and cash equivalents                    | 5    | \$ 2,117             | Ps. 43,637         | Ps. 29,396         |
| Investments                                  | 6    | 6                    | 120                | 19                 |
| Accounts receivable, net                     | 7    | 1,272                | 26,222             | 18,012             |
| Inventories                                  | 8    | 1,549                | 31,932             | 24,680             |
| Recoverable taxes                            | 24   | 447                  | 9,226              | 8,544              |
| Other current financial assets               | 9    | 131                  | 2,705              | 2,418              |
| Other current assets                         | 9    | 199                  | 4,109              | 3,654              |
| Total current assets                         |      | 5,721                | 117,951            | 86,723             |
| Investments in associates and joint ventures | 10   | 6,238                | 128,601            | 111,731            |
| Property, plant and equipment, net           | 11   | 4,958                | 102,223            | 80,296             |
| Intangible assets, net                       | 12   | 7,434                | 153,268            | 108,341            |
| Deferred tax assets                          | 24   | 585                  | 12,053             | 8,293              |
| Other financial assets                       | 13   | 744                  | 15,345             | 8,955              |
| Other assets,                                | 13   | 785                  | 16,182             | 4,993              |
| <b>TOTAL ASSETS</b>                          |      | <b>\$ 26,465</b>     | <b>Ps. 545,623</b> | <b>Ps. 409,332</b> |
| <b>LIABILITIES AND EQUITY</b>                |      |                      |                    |                    |
| <b>Current Liabilities:</b>                  |      |                      |                    |                    |
| Bank loans and notes payable                 | 18   | \$ 93                | Ps. 1,912          | Ps. 2,239          |
| Current portion of long-term debt            | 18   | 260                  | 5,369              | 3,656              |
| Interest payable                             |      | 47                   | 976                | 597                |
| Suppliers                                    |      | 2,302                | 47,465             | 35,773             |
| Accounts payable                             |      | 564                  | 11,624             | 9,236              |
| Taxes payable                                |      | 551                  | 11,360             | 9,136              |
| Other current financial liabilities          | 25   | 368                  | 7,583              | 4,709              |
| Total current liabilities                    |      | 4,185                | 86,289             | 65,346             |
| <b>Long-Term Liabilities:</b>                |      |                      |                    |                    |
| Bank loans and notes payable                 | 18   | 6,401                | 131,967            | 85,969             |
| Employee benefits                            | 16   | 216                  | 4,447              | 4,229              |
| Deferred tax liabilities                     | 24   | 535                  | 11,037             | 6,230              |
| Other financial liabilities                  | 25   | 355                  | 7,320              | 495                |
| Provisions and other long-term liabilities   | 25   | 892                  | 18,393             | 5,207              |
| Total long-term liabilities                  |      | 8,399                | 173,164            | 102,130            |

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|   |    |                  |                    |             |
|---|----|------------------|--------------------|-------------|
| Total liabilities                                     |    | <b>12,584</b>    | <b>259,453</b>     | 167,476     |
| <b>Equity:</b>  |    |                  |                    |             |
| Controlling interest:                                 |    |                  |                    |             |
| Capital stock   |    | <b>162</b>       | <b>3,348</b>       | 3,348       |
| Additional paid-in capital                            |    | <b>1,248</b>     | <b>25,733</b>      | 25,807      |
| Retained earnings                                     |    | <b>8,187</b>     | <b>168,796</b>     | 156,532     |
| Cumulative other comprehensive income (loss)          |    | <b>682</b>       | <b>14,027</b>      | (4,163)     |
| Total controlling interest                            |    | <b>10,279</b>    | <b>211,904</b>     | 181,524     |
| Non-controlling interest in consolidated subsidiaries | 21 | <b>3,602</b>     | <b>74,266</b>      | 60,332      |
| Total equity  |    | <b>13,881</b>    | <b>286,170</b>     | 241,856     |
| <b>TOTAL LIABILITIES AND EQUITY</b>                   |    | <b>\$ 26,465</b> | <b>Ps. 545,623</b> | Ps. 409,332 |

(\*) Convenience translation to U.S. dollars (\$) See Note 2.2.3

**The accompanying notes are an integral part of these consolidated statements of financial position.**

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**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MEXICO***Consolidated Income Statements*

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

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.), except per share amounts.

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



(\*) Convenience translation to U.S. dollars (\$) See Note 2.2.3

**The accompanying notes are an integral part of these consolidated income statements.**

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**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MEXICO***Consolidated Statements of Comprehensive Income*

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

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.)

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

(\*) Convenience translation to U.S. dollars (\$) See Note 2.2.3

**The accompanying notes are an integral part of these consolidated statements of comprehensive income.**



**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MEXICO***Consolidated Statements of Changes in Equity*

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

Amounts expressed in millions of Mexican pesos (Ps.)

|   | Capital<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Valuation of<br>the Effective<br>Portion of<br>Derivative<br>Financial<br>Instrument | Exchange<br>Differences<br>on the<br>Translation<br>of Foreign<br>Operations<br>and<br>Associates | Remeasurements<br>of the Net<br>Defined<br>Benefit<br>Liability | Total<br>Controlling<br>Interest | Non-Controlling<br>Interest | Total<br>Equity |
|---|------------------|----------------------------------|----------------------|--|---|---|----------------------------------|-----------------------------|-----------------|
| <b>Balances at January 1,<br/>2014</b>  | Ps. 3,346        | Ps. 25,433                       | Ps. 130,840          | Ps. 181  | Ps. 779   | Ps. (1,187)   | Ps. 159,392                      | Ps. 63,158                  | Ps. 222,550     |
| Net income  |                  |                                  | 16,701               |  |   |   | 16,701                           | 5,929                       | 22,630          |
| Other comprehensive<br>income, net of tax                                       |                  |                                  |                      | 126  | (4,412)   | (1,132)   | (5,418)                          | (6,265)                     | (11,683)        |
| Comprehensive income  |                  |                                  | 16,701               | 126  | (4,412)   | (1,132)   | 11,283                           | (336)                       | 10,947          |
| Dividends declared  |                  |                                  |                      |  |   |   |                                  | (3,152)                     | (3,152)         |
| Issuance (repurchase) of<br>shares associated with<br>share-based payment plans | 1                | 216                              |                      |  |   |   | 217                              | (21)                        | 196             |
| Other movements of equity<br>method of associates, net of<br>taxes              |                  |                                  | (419)                |  |   |   | (419)                            |                             | (419)           |
| <b>Balances at December 31,<br/>2014</b>  | 3,347            | 25,649                           | 147,122              | 307  | (3,633)   | (2,319)   | 170,473                          | 59,649                      | 230,122         |
| Net income  |                  |                                  | 17,683               |  |   |   | 17,683                           | 5,593                       | 23,276          |
| Other comprehensive<br>income, net of tax                                       |                  |                                  |                      | 299  | 945   | 238   | 1,482                            | (2,999)                     | (1,517)         |
| Comprehensive income  |                  |                                  | 17,683               | 299  | 945   | 238   | 19,165                           | 2,594                       | 21,759          |
| Dividends declared  |                  |                                  | (7,350)              |  |   |   | (7,350)                          | (3,351)                     | (10,701)        |
| Issuance of shares<br>associated with share-based<br>payment plans              | 1                | 158                              |                      |  |   |   | 159                              | 57                          | 216             |
| Acquisition of Grupo<br>Socofar (see Note 4)                                    |                  |                                  |                      |  |   |   |                                  | 1,133                       | 1,133           |
| Contributions from<br>non-controlling interest                                  |                  |                                  |                      |  |   |   |                                  | 250                         | 250             |
| Other movements of equity<br>method of associates, net of<br>taxes              |                  |                                  | (923)                |  |   |   | (923)                            |                             | (923)           |
| <b>Balances at December 31,<br/>2015</b>  | 3,348            | 25,807                           | 156,532              | 606  | (2,688)   | (2,081)   | 181,524                          | 60,332                      | 241,856         |
| Net income  |                  |                                  | <b>21,140</b>        |  |   |   | <b>21,140</b>                    | <b>6,035</b>                | <b>27,175</b>   |

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|  |                  |                   |                    |                  |                   |                    |                    |                   |                    |
|--|------------------|-------------------|--------------------|------------------|-------------------|--------------------|--------------------|-------------------|--------------------|
| Other comprehensive income, net of tax                           |                  | 2,057             | 17,241             | (1,108)          | 18,190            | 9,463              | 27,653             |                   |                    |
| Comprehensive income   | 21,140           | 2,057             | 17,241             | (1,108)          | 39,330            | 15,498             | 54,828             |                   |                    |
| Dividends declared   | (8,355)          |                   |                    |                  | (8,355)           | (3,690)            | (12,045)           |                   |                    |
| Issuance of shares associated with share-based payment plans     | (74)             |                   |                    |                  | (74)              | 9                  | (65)               |                   |                    |
| Other equity instruments from acquisition of Vonpar (See note 4) |                  |                   |                    |                  |                   | (485)              | (485)              |                   |                    |
| Other acquisitions and remeasurements (See note 4)               |                  |                   |                    |                  |                   | 1,710              | 1,710              |                   |                    |
| Contributions from non-controlling interest                      |                  |                   |                    |                  |                   | 892                | 892                |                   |                    |
| Other movements of equity method of associates, net of taxes     | (521)            |                   |                    |                  | (521)             |                    | (521)              |                   |                    |
| <b>Balances at December 31, 2016</b>                             | <b>Ps. 3,348</b> | <b>Ps. 25,733</b> | <b>Ps. 168,796</b> | <b>Ps. 2,663</b> | <b>Ps. 14,553</b> | <b>Ps. (3,189)</b> | <b>Ps. 211,904</b> | <b>Ps. 74,266</b> | <b>Ps. 286,170</b> |

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

**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MEXICO***Consolidated Statements of Cash Flows*

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

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.)

|  | 2016 (*)        | 2016              | 2015       | 2014       |
|--|-----------------|-------------------|------------|------------|
| <b>Cash flows from operating activities:</b>   |                 |                   |            |            |
| <b>Income before income taxes</b>  | <b>\$ 1,701</b> | <b>Ps. 35,063</b> | Ps. 31,208 | Ps. 28,883 |
| <b>Adjustments for:</b>  |                 |                   |            |            |
| Non-cash operating expenses  | 199             | 4,111             | 2,873      | 209        |
| Depreciation   | 586             | 12,076            | 9,761      | 9,029      |
| Amortization   | 79              | 1,633             | 1,064      | 985        |
| (Gain) loss on sale of long-lived assets   | (8)             | (170)             | (249)      | 7          |
| Loss (gain) on sale of shares  |                 | 8                 | (14)       |            |
| Disposal of long-lived assets  | 12              | 238               | 416        | 153        |
| Impairment of long-lived assets  |                 |                   | 134        | 145        |
| Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes | (316)           | (6,507)           | (6,045)    | (5,139)    |
| Interest income  | (63)            | (1,299)           | (1,024)    | (862)      |
| Interest expense   | 468             | 9,646             | 7,777      | 6,701      |
| Foreign exchange (gain) loss, net  | (55)            | (1,131)           | 1,193      | 903        |
| Monetary position (gain) loss, net   | (117)           | (2,411)           | 36         | 319        |
| Market value (gain) on financial instruments   | (9)             | (186)             | (364)      | (73)       |
| Cash flow from operating activities before changes in operating accounts                                 | 2,477           | 51,071            | 46,766     | 41,260     |
| Accounts receivable and other current assets   | (92)            | (1,889)           | (4,379)    | (4,962)    |
| Other current financial assets   | (68)            | (1,395)           | 318        | 1,736      |
| Inventories  | (239)           | (4,936)           | (4,330)    | (1,122)    |
| Derivative financial instruments   | 6               | 130               | 441        | 245        |
| Suppliers and other accounts payable   | 744             | 15,337            | 6,799      | 8,048      |
| Other long-term liabilities  | 47              | 968               | 822        | (2,308)    |
| Other current financial liabilities  | 128             | 2,642             | (570)      | 793        |
| Employee benefits paid   | (23)            | (476)             | (382)      | (416)      |
| Cash generated from operations   | 2,980           | 61,452            | 45,485     | 43,274     |
| Income taxes paid  | (549)           | (11,321)          | (8,743)    | (5,910)    |
| <b>Net cash generated by operating activities</b>  | <b>2,431</b>    | <b>50,131</b>     | 36,742     | 37,364     |
| <b>Cash flows from investing activities:</b>   |                 |                   |            |            |
| Acquisition of Grupo Socofar, net of cash acquired (see Note 4)  |                 |                   | (6,890)    |            |
| Partial payment of Vonpar, net of cash acquired (see Note 4)   | (640)           | (13,198)          |            |            |
| Other acquisitions, net of cash acquired (see Note 4)  | (244)           | (5,032)           | (5,821)    |            |
| Other investments in associates and joint ventures   | (106)           | (2,189)           | (291)      | 90         |
| Purchase of investments  | (6)             | (118)             |            | (607)      |
| Proceeds from investments  | 1               | 20                | 126        | 589        |
| Interest received  | 63              | 1,299             | 1,024      | 863        |
| Derivative financial instruments   | (11)            | (220)             | 232        | (25)       |
| Dividends received from associates and joint ventures  | 159             | 3,276             | 2,394      | 1,801      |

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|  |                 |                   |                   |                   |
|--|-----------------|-------------------|-------------------|-------------------|
| Property, plant and equipment acquisitions   | (926)           | (19,083)          | (17,485)          | (16,985)          |
| Proceeds from the sale of property, plant and equipment  | 28              | 574               | 630               | 209               |
| Acquisition of intangible assets   | (112)           | (2,309)           | (971)             | (706)             |
| Investment in other assets   | (83)            | (1,709)           | (1,502)           | (796)             |
| Collections of other assets  |                 | 2                 | 223               |                   |
| Investment in other financial assets   | (1)             | (23)              | (28)              | (41)              |
| Collection in other financial assets   | 3               | 65                |                   |                   |
| <b>Net cash used in investing activities</b>   | <b>(1,875)</b>  | <b>(38,645)</b>   | <b>(28,359)</b>   | <b>(15,608)</b>   |
| <b>Cash flows from financing activities:</b>   |                 |                   |                   |                   |
| Proceeds from borrowings   | 1,292           | 26,629            | 8,422             | 5,354             |
| Payments of bank loans   | (265)           | (5,458)           | (15,520)          | (5,721)           |
| Interest paid  | (265)           | (5,470)           | (4,563)           | (3,984)           |
| Derivative financial instruments   | (168)           | (3,471)           | 8,345             | (2,267)           |
| Dividends paid   | (584)           | (12,045)          | (10,701)          | (3,152)           |
| Contributions from non-controlling interest  | 43              | 892               | 250               |                   |
| Other financing activities   | 11              | 220               | 26                | 482               |
| <b>Net cash generated (used in) by financing activities</b>  | <b>64</b>       | <b>1,297</b>      | <b>(13,741)</b>   | <b>(9,288)</b>    |
| Increase (decrease) in cash and cash equivalents   | 620             | 12,783            | (5,358)           | 12,468            |
| Initial balance of cash and cash equivalents   | 1,426           | 29,396            | 35,497            | 27,259            |
| Effects of exchange rate changes and inflation effects on cash and cash equivalents held in foreign currencies | 71              | 1,458             | (743)             | (4,230)           |
| <b>Ending balance of cash and cash equivalents</b>   | <b>\$ 2,117</b> | <b>Ps. 43,637</b> | <b>Ps. 29,396</b> | <b>Ps. 35,497</b> |

(\*) Convenience translation to U.S. dollars (\$) see Note 2.2.3

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

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

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.)

**Note 1. Activities of the Company**

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

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

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



- (1) The Company controls Coca-Cola FEMSA's relevant activities.
- (2) The former shareholders of Farmacias YZA hold a 25% stake in Cadena Comercial de Farmacias, S.A.P.I. de C.V., a subsidiary of FEMSA Comercio that holds all pharmacy business in Mexico (which we refer to as CCF). In addition, FEMSA Comercio through one of its subsidiaries, Cadena Comercial de Farmacias Sudamerica, S.P.A., holds a 60% stake in Grupo Socofar, see Note 4.1.2.
- (3) As of 2016, FEMSA Comercio's Health Division has been considered as a separate reportable segment, see Note 26.

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### **Note 2. Basis of Preparation**

#### *2.1 Statement of compliance*

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

The Company s consolidated financial statements and notes were authorized for issuance by the Company s Chief Executive Officer Carlos Salazar Lomelín and Chief Financial and Corporate Officer Eduardo Padilla Silva on February 23, 2017. These consolidated financial statements and notes were then approved by the Company s Board of Directors on February 24, 2017 and by the Shareholders meeting on March 16, 2017. The accompanying consolidated financial statements were approved for issuance in the Company s annual report on Form 20-F by the Company s Chief Executive Officer and Chief Financial and Corporate Officer on April 21, 2017, and subsequent events have been considered through that date (See Note 28).

#### *2.2 Basis of measurement and presentation*

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

Available-for-sale investments.

Derivative financial instruments.

Long-term notes payable on which fair value hedge accounting is applied.

Trust assets of post-employment and other long-term employee benefit plans.

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

#### *2.2.1 Presentation of consolidated income statement*

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

#### *2.2.2 Presentation of consolidated statements of cash flows*

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

#### *2.2.3 Convenience translation to U.S. dollars (\$)*

The consolidated financial statements are stated in millions of Mexican pesos ( Ps. ) and rounded to the nearest million unless stated otherwise. However, solely for the convenience of the readers, the consolidated statement of financial position as of December 31, 2016, the consolidated income statement, the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended December 31, 2016 were converted into U.S. dollars at the exchange rate of 20.6170 Mexican pesos per U.S. dollar as published by the Federal Reserve Bank of New York as of December 30, 2016 the last date in 2016 for available information. This arithmetic conversion should not be construed as representation that the amounts expressed in Mexican pesos may be converted into U.S. dollars at that or any other exchange rate. As of April 12, 2017 (the issuance date of these financial statements on Form 20-F) such exchange rate was Ps. 18.7665 per U.S. dollar, a

revaluation of 9.0% since December 31, 2016.

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### *2.3 Critical accounting judgments and estimates*

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

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

#### *2.3.1 Key sources of estimation uncertainty*

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

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

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

The Company assesses at each reporting date whether there is an indication that a long-lived asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

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

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

### *2.3.1.3 Employee benefits*

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

### *2.3.1.4 Income taxes*

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

### *2.3.1.5 Tax, labor and legal contingencies and provisions*

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

### *2.3.1.6 Valuation of financial instruments*

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

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

### *2.3.1.7 Business combinations*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company to, and liabilities assumed by the Company from the former owners of the acquiree, the amount of any non-controlling interest in the acquiree, and the equity interests issued by the Company in exchange for control of the acquiree.

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

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

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

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

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

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

### *2.3.2 Judgements*

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

#### *2.3.2.1 Investments in associates*

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

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

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

Material transactions between the Company and the investee;

Interchange of managerial personnel; or

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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.

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

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

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

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

### *2.3.2.2 Joint arrangements*

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

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

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

### *2.3.2.3 Venezuela exchange rates and consolidation*

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

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

### *2.4 Application of recently issued accounting standards*

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

#### *IAS 19 Employee Benefits*

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





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### **Note 3. Significant Accounting Policies**

#### *3.1 Basis of consolidation*

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

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

Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);

Exposure, or rights, to variable returns from its involvement with the investee; and

The ability to use its power over the investee to affect its returns.

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

The contractual arrangements with the other vote holders of the investee;

Rights arising from other contractual arrangements; and

The Company's voting rights and potential voting rights.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements of income and comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

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

Derecognizes the assets (including goodwill) and liabilities of the subsidiary.

Derecognizes the carrying amount of any non-controlling interests.

Derecognizes the cumulative translation differences recorded in equity.

Recognizes the fair value of the consideration received.

Recognizes the fair value of any investment retained.

Recognizes any surplus or deficit in profit or loss.

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Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities.

### *3.1.1 Acquisitions of non-controlling interests*

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

### *3.2 Business combinations*

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

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

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items in which the accounting is incomplete, and discloses that its allocation is preliminary in nature. Those provisional amounts are adjusted retrospectively during the measurement period (not greater than 12 months from the acquisition date), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

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

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

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

The variations in the net investment in foreign subsidiaries generated by exchange rate fluctuation which are included in other comprehensive income, which is recorded in equity as part of cumulative translation adjustment within the cumulative other comprehensive income.

Intercompany financing balances with foreign subsidiaries are considered as long-term investments when there is no plan to pay such financing in the foreseeable future. Monetary position and exchange rate fluctuation regarding this financing is recorded in the exchange differences on translation of foreign operations within the cumulative other comprehensive income (loss) item, which is recorded in equity.

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

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

For hyperinflationary economic environments, the inflation effects of the origin country are recognized pursuant IAS 29 Financial Reporting in Hyperinflationary Economies, and subsequently translated into Mexican pesos using the year-end exchange rate for the consolidated statements of financial position and consolidated income statement and comprehensive income; and

For non-hyperinflationary economic environments, assets and liabilities are translated into Mexican pesos using the year-end exchange rate, equity is translated into Mexican pesos using the historical exchange rate, and the income statement and comprehensive income is translated using the exchange rate at the date of each transaction. The Company uses the average exchange rate of each month if the exchange rate does not fluctuate significantly.

**Exchange Rates of Local Currencies Translated to Mexican Pesos <sup>(1)</sup>**

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

(1) Exchange rates published by the Central Bank of each country were the Company operates.

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**a) Venezuela**

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

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

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

- i) The official exchange rate. Used for transactions involving what the Venezuelan government considers to be essential goods and services. Until March 10, 2016, most of the Company's concentrate purchases from The Coca-Cola Company and other strategic suppliers qualified for such treatment. As of December 31, 2014 and 2015 the official exchange rate was 6.30 bolivars per U.S. dollar.
- ii) SICAD. Used for certain transactions, including payment of services and payments related to foreign investments in Venezuela, determined by the state-run system known as *Sistema Complementario de Administración de Divisas* or SICAD exchange rate. The SICAD determined this alternative exchange rate based on limited periodic sales of U.S. dollars through auctions. As of December 31, 2015 the SICAD exchange rate was 13.50 bolivars per U.S. dollar (Ps.1.27 per bolivar). During part of 2015, SICAD was used for certain types of transactions including purchases from other strategic suppliers that did not qualify by the official exchange rate. In February 2016, this exchange rate was eliminated and combined with the official exchange rate.
- iii) SICAD II. The Venezuelan government enacted a new law in 2014 that authorized an additional method of exchanging Venezuelan bolivars to U.S. dollars. During part of 2015 SICAD-II was used for certain types of transactions not covered by the official exchange rate or the SICAD exchange rate. In February 2015, this exchange rate was eliminated.
- iv) SIMADI. In February 2015, the Venezuelan government enacted a new market-based exchange rate determined by the system known as the *Sistema Marginal de Divisas*, or SIMADI. The SIMADI determined the exchange rates based on supply and demand of U.S. dollars. The SIMADI exchange rate as of December 31, 2015 was 198.70 bolivars per U.S. dollar (Ps. 0.09 per bolivar). As of December 31 2015, the Company used SIMADI to translate the results of its Venezuela subsidiary.
- v) DIPRO and DICOM. In March 10, 2016, the Venezuelan government announced the replacement of (a) the SIMADI exchange rate with a new market based exchange rate known as *Divisas Complementarias*, or DICOM, and (b) the official exchange rate with a preferential exchange rate denominated *Divisa Protegida*, or DIPRO. The DIPRO exchange rate is determined by the Venezuelan government and may be used to settle imports of a list of goods and raw materials. The DICOM exchange rate is determined based on supply and demand of U.S. dollars. As of December 31, 2016 the DIPRO and DICOM exchange rates were 10 bolivars and 673.76 bolivars per U.S. dollar, respectively. As of December 31, 2016 the Company used the DIPRO exchange rate to remeasure some of its liabilities in U.S. dollar that were originally recorded at the official exchange rate. The DICOM exchange rate was used in the remeasurement of certain liabilities and in the translation of the financial statements of its Venezuelan operations as of December 31, 2016.

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

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

As of December 31, 2016 Coca-Cola FEMSA had U.S. \$429.8 million in monetary liabilities recorded using DIPRO exchange rate, mainly as explained above, Coca-Cola FEMSA continues to qualify for this exchange rate to pay for the import of various products into Venezuela, and its ability to renegotiate with their main suppliers, if necessary, the settlement of such liabilities in Bolivars. In addition, The Company has US\$189.8 million recorded at DICOM.

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

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

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

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

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

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

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



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

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

Using inflation factors to restate non-monetary assets, such as inventories, property, plant and equipment, intangible assets, including related costs and expenses when such assets are consumed or depreciated;

Applying the appropriate inflation factors to restate capital stock, additional paid-in capital, net income, retained earnings and items of other comprehensive income by the necessary amount to maintain the purchasing power equivalent in the currency of Venezuela on the dates such capital was contributed or income was generated up to the date those consolidated financial statements are presented; and

Including the monetary position gain or loss in consolidated net income.

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

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

**(a) Argentina**

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

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



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- ii. Coeficiente de Estabilización de Referencia (CER or Reference Stabilization Ratio) to calculate the three-year cumulative inflation rate in Argentina, the CER is used by the government of Argentina to adjust the rate they pay on certain adjustable rate bonds they issue. At November 30, 2016, the three-year cumulative inflation rate based on CER data is estimated to be approximately 92%.
  
- iii. WPI with a cumulative inflation for three years of 92.2% at November 2016 but not including information for November and December 2015 since it was not published by the National Bureau of Statistics of Argentina (INDEC). The WPI has historically been viewed as the most relevant inflation measure for companies by practitioners in Argentina.  
As a result of the existence of multiple inflation indices, the Company believes it necessitates an increased level of judgment in determining whether the economy of Argentina should be considered highly inflationary.

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

### *3.5 Cash and cash equivalents and restricted cash*

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

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

### *3.6 Financial assets*

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

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

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

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

#### *3.6.1 Effective interest rate method (EIR)*

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

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### *3.6.2 Investments*

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

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

### *3.6.3 Loans and receivables*

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

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

### *3.6.4 Other financial assets*

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

### *3.6.5 Impairment of financial assets*

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

Evidence of impairment may include indicators as follows:

Significant financial difficulty of the issuer or counterparty; or

Default or delinquent in interest or principal payments; or

It becoming probable that the borrower will enter bankruptcy or financial re-organization; or

The disappearance of an active market for that financial asset because of financial difficulties.

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

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

### *3.6.6 Derecognition*

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

The rights to receive cash flows from the financial asset have expired, or

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

### *3.6.7 Offsetting of financial instruments*

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

Currently has an enforceable legal right to offset the recognized amounts; and

Intends to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### *3.7 Derivative financial instruments*

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

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

#### *3.7.1 Hedge accounting*

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

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



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### *3.7.1.1 Cash flow hedges*

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

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

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

### *3.7.1.2 Fair value hedges*

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

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

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

### *3.7.2 Hedge of net investment in a foreign business*

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

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

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### *3.8 Fair value measurement*

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

In the principal market for the asset or liability; or

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

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

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

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

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

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

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

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

### *3.9 Inventories and cost of goods sold*

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



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

Cost of goods sold is based on the weighted average cost of the inventories at the time of sale. Cost of goods sold includes expenses related to the purchase of raw materials used in the production process, as well as labor costs (wages and other benefits), depreciation of production facilities, equipment and other costs, including fuel, electricity, equipment 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.

### *3.10 Other current assets*

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

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

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

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

### *3.11 Investments in associates and joint arrangements*

#### *3.11.1 Investments in associates*

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

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

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

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

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

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

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

### *3.11.2 Joint arrangements*

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

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

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

### *3.12 Property, plant and equipment*

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

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

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

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

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

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

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

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

*Returnable and non-returnable bottles:*

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

Non returnable: Are recorded in consolidated net income at the time of the sale of the product.

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

There are two types of returnable bottles:

Those that are in Coca-Cola FEMSA's control within its facilities, plants and distribution centers; and

Those that have been placed in the hands of customers, and still belong to Coca-Cola FEMSA.

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



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

### *3.13 Borrowing costs*

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

Interest expense; and

Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Interest income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

### *3.14 Intangible assets*

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

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

Information technology and management system costs incurred during the development stage which are currently in use. Such amounts are capitalized and then amortized using the straight-line method over their expected useful lives, with a range in useful lives from 3 to 10 years. Expenses that do not fulfill the requirements for capitalization are expensed as incurred.

Long-term alcohol licenses are amortized using the straight-line method over their estimated useful lives, which range between 12 and 15 years, and are presented as part of intangible assets with finite useful lives.

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

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

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

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

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

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

### *3.15 Non-current assets held for sale*

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

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

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

### *3.16 Impairment of long-lived assets*

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

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

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

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Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted, as discussed in Note 2.3.1.1.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in consolidated net income. Impairment losses related to goodwill are not reversible.

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

### *3.17 Leases*

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

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

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

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

### *3.18 Financial liabilities and equity instruments*

#### *3.18.1 Classification as debt or equity*

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

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### *3.18.2 Equity instruments*

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

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

### *3.18.3 Financial liabilities*

#### *Initial recognition and measurement*

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

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

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

#### *Subsequent measurement*

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

### *3.18.4 Loans and borrowings*

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

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

### *3.18.5 Derecognition*

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



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*3.19 Provisions*

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

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

*3.20 Post-employment and other long-term employee benefits*

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

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

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

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

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

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

### *3.21 Revenue recognition*

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

The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

The amount of revenue can be measured reliably;

It is probable that the economic benefits associated with the transaction will flow to the Company; and

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

### *Rendering of services and other*

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

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

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

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### *Interest income*

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

The amount of the revenue can be measured reliably; and

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

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

### *3.22 Administrative and selling expenses*

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

Selling expenses include:

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

Sales: labor costs (salaries and other benefits, including PTU) and sales commissions paid to sales personnel; and

Marketing: promotional expenses and advertising costs.

PTU is paid by the Company s Mexican subsidiaries to its eligible employees. In Mexico, employee profit sharing is computed at the rate of 10% of the individual company taxable income. PTU in Mexico is calculated from the same taxable income for income tax, except for the following:

a) neither tax losses from prior years nor the PTU paid during the year are deductible; and b) payments exempt from taxes for the employees are fully deductible in the PTU computation.

### *3.23 Income taxes*

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are charged to consolidated net income as they are incurred, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

#### *3.23.1 Current income taxes*

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

#### *3.23.2 Deferred income taxes*

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Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized and if any, future benefits from tax loss carry forwards and certain tax credits. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from initial recognition of goodwill (no recognition of deferred tax liabilities) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, except in the case of Brazil, where certain goodwill amounts are at times deductible for tax purposes.

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

### *3.24 Share-based payments arrangements*

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

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

### *3.25 Earnings per share*

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

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*3.26 Issuance of subsidiary stock*

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

**Note 4. Mergers and Acquisitions**

*4.1 Mergers and acquisitions*

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

*4.1.1 Acquisition of Vonpar*

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

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

On the same date Spal additionally paid Ps. 4,124 (R\$ 688) in cash, of which in a subsequent and separate transaction the sellers committed to capitalize for an amount of Ps. 4,082 into Coca-Cola FEMSA in exchange for approximately 27.9 million KOF series L shares at an implicit value of Ps. 146.27, at the date of this financial statements the issuance of KOF series L shares are pending to be approved by Coca-Cola FEMSA shareholders and the Mexican Stock Exchange Regulators.

At closing, Spal issued and delivered a three-year promissory note to the sellers, for the remaining balance of R\$ 1,090 million Brazilian reais (approximately Ps. 6,534 million as of December 6, 2016). The promissory note bears interest at an annual rate of 0.375%, and is denominated and payable in Brazilian reais. The promissory note is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. The holders of the promissory note have an option, that may be exercised prior to the scheduled maturity of the promissory note, to capitalize the Mexican peso amount equivalent to the amount payable under the promissory note into a recently incorporated Mexican company which would then be merged into Coca-Cola FEMSA in exchange for Series L shares at a strike price of Ps.178.5 per share. Such capitalization and issuance of new Series L shares is subject to Coca-Cola FEMSA having a sufficient number of Series L shares available for issuance. As of December 6, 2016, the fair value of KOF series L (KL) shares was Ps. 128.88 per share, in addition the KL shares have not been issued, consequently as a result of this subsequent transaction an embedded financial instrument was originated and recorded into equity for an amount of Ps.485. In accordance with IAS 32, in the consolidated financial statements the purchase price was also adjusted to recognize the fair value of the embedded derivative arising from the difference between the implicit value of KL shares and the fair value at acquisition date.

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

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

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

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

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

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

|                            |                  |
|----------------------------|------------------|
| <b>Income Statement</b>    | <b>2016</b>      |
| Total revenues             | <b>Ps. 1,628</b> |
| Income before income taxes | <b>380</b>       |
| Net income                 | <b>Ps. 252</b>   |

**4.1.2 Acquisition of Grupo Socofar**

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





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

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

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

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

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

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

| <b>Income Statement</b>    | <b>2015</b>      |
|----------------------------|------------------|
| Total revenues             | <b>Ps. 7,583</b> |
| Income before income taxes | <b>394</b>       |
| Net income                 | <b>Ps. 354</b>   |

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.

**Table of Contents****4.1.3 Other acquisitions**

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

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

|   |                  |
|---|------------------|
|   | <b>2016</b>      |
| Total current assets (including cash acquired of Ps. 211) | <b>Ps. 1,267</b> |
| Total non-current assets                                  | <b>1,958</b>     |
| <b>Total assets</b>                                       | <b>3,225</b>     |
| Total liabilities   | <b>(1,664)</b>   |
| <b>Net assets acquired</b>                                | <b>1,561</b>     |
| Goodwill  | <b>4,420</b>     |
| Non-controlling interest <sup>(1)</sup>                   | <b>(369)</b>     |
| Equity interest held previously                           | <b>369</b>       |
| <b>Total consideration transferred</b>                    | <b>Ps. 5,243</b> |

(1) In the case of the acquisition of Specialty s the non-controlling interest was measured at fair value at the acquisition date, and for Open Market the non-controlling interest was recognized at the proportionate share of the net assets acquired.

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

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



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

| <b>Income Statement</b>    | <b>2016</b>      |
|----------------------------|------------------|
| Total revenues             | <b>Ps. 2,400</b> |
| Income before income taxes | <b>(66)</b>      |
| Net income                 | <b>Ps. (126)</b> |

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

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

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

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

(1) As a result of the purchase price allocation which was finalized in 2016, additional fair value adjustments from those recognized in 2015 have been recognized as follow: property, plant and equipment amounted of Ps. 130, trademark rights amounted of Ps. 453 and other liabilities amounted of Ps. 1,202 FEMSA Comercio Health Division and the logistic services business expect to recover the amount recorded as goodwill through synergies related to the ability to apply the operational processes of these business units. Farmacias Farmacon goodwill have been allocated to FEMSA Comercio Health Division cash generating unit in Mexico and merger of PEMEX franchises goodwill have been allocated to FEMSA

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Comercio Fuel Division cash generating unit in Mexico. Zimag and Atlas Transportes e Logistica goodwill have been allocated into logistic services business s cash generating unit in Mexico and Brazil, respectively.

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

| <b>Income Statement</b>    | <b>2015</b>       |
|----------------------------|-------------------|
| Total revenues             | <b>Ps. 20,262</b> |
| Income before income taxes | <b>176</b>        |
| Net income                 | <b>Ps. 120</b>    |

**Unaudited Pro Forma Financial Data**

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

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

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

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

**Table of Contents****Note 5. Cash and Cash Equivalents**

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

|                                 | <b>December 31,<br/>2016</b> | December 31,<br>2015 |
|---------------------------------|------------------------------|----------------------|
| Cash and bank balances          | <b>Ps. 18,140</b>            | Ps. 12,530           |
| Cash equivalents (see Note 3.5) | <b>25,497</b>                | 16,866               |
|                                 | <b>Ps. 43,637</b>            | Ps. 29,396           |

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

**Note 6. Investments**

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

|  | <b>2016</b>    | 2015   |
|--|----------------|--------|
| <i>Held-to Maturity <sup>(1)</sup></i> |                |        |
| <b>Corporate debt securities</b>       |                |        |
| Acquisition cost                       | <b>Ps. 118</b> | Ps. 19 |
| Accrued interest                       | <b>2</b>       |        |
| Amortized cost                         | <b>Ps. 120</b> | Ps. 19 |
|  | <b>Ps. 120</b> | Ps. 19 |

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

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

**Note 7. Accounts Receivable, Net**

|                                     | <b>December 31,<br/>2016</b> | December 31,<br>2015 |
|-------------------------------------|------------------------------|----------------------|
| Trade receivables                   | <b>Ps. 22,177</b>            | Ps. 14,696           |
| Allowance for doubtful accounts     | <b>(1,193)</b>               | (849)                |
| The Coca-Cola Company (see Note 14) | <b>1,857</b>                 | 1,559                |
| Loans to employees                  | <b>229</b>                   | 151                  |



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|                        |                   |            |
|------------------------|-------------------|------------|
| Other related parties  | 254               | 243        |
| Heineken (see Note 14) | 1,041             | 754        |
| Others                 | 1,857             | 1,458      |
|                        | <b>Ps. 26,222</b> | Ps. 18,012 |

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**Table of Contents***7.1 Trade receivables*

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

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

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

*Aging of past due but not impaired (days outstanding)*

|             | <b>December 31,<br/>2016</b> | December 31,<br>2015 |
|-------------|------------------------------|----------------------|
| 60-90 days  | <b>Ps. 610</b>               | Ps. 178              |
| 90-120 days | <b>216</b>                   | 161                  |
| 120+ days   | <b>1,539</b>                 | 588                  |
| Total       | <b>Ps. 2,365</b>             | Ps. 927              |

*7.2 Changes in the allowance for doubtful accounts*

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

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

*7.3 Payments from The Coca-Cola Company*

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

**Table of Contents****Note 8. Inventories**

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

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

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

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

**Note 9. Other Current Assets and Other Current Financial Assets***9.1 Other current assets*

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

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

|  | December 31,<br>2016 | December 31,<br>2015 |
|--|----------------------|----------------------|
| Advances for inventories                             | Ps. 2,734            | Ps. 2,291            |
| Advertising and promotional expenses paid in advance | 171                  | 58                   |
| Advances to service suppliers                        | 466                  | 601                  |
| Prepaid leases                                       | 164                  | 115                  |
| Prepaid insurance                                    | 104                  | 58                   |

Others

145

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**Ps. 3,784 Ps. 3,363**

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

*9.2 Other current financial assets*

|  | <b>December 31,<br/>2016</b> | December 31,<br>2015 |
|--|------------------------------|----------------------|
| Restricted cash                                | <b>Ps. 774</b>               | Ps. 704              |
| Derivative financial instruments (see Note 20) | <b>1,917</b>                 | 523                  |
| Short term note receivable <sup>(1)</sup>      | <b>14</b>                    | 1,191                |
|  | <b>Ps. 2,705</b>             | Ps. 2,418            |

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

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

|                     | <b>December 31,<br/>2016</b> | December 31,<br>2015 |
|---------------------|------------------------------|----------------------|
| Venezuelan bolivars | <b>Ps. 183</b>               | Ps. 344              |
| Brazilian reais     | <b>73</b>                    | 360                  |
| Colombian pesos     | <b>518</b>                   |                      |
|                     | <b>Ps. 774</b>               | Ps. 704              |

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

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

**Table of Contents****Note 10. Investments in Associates and Joint Ventures**

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

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

(1) Associate.

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

(3) Joint ventures.

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

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

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

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

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

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

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

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

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

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

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

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

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



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For the years then ended December 31, 2016 and 2015 fair value of Company's investment in Heineken N.V. Holding and Heineken N.V. represented by shares equivalent to 20% of its outstanding shares amounted to Ps. 173,857 ( \$.7,989 million) and Ps. 165,517 ( \$.8,740 million) based on quoted market prices of those dates. As of April 12, 2017, issuance date of these consolidated financial statements, fair value amounted to \$.9,175 million.

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

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

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

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

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

**Table of Contents****Note 11. Property, Plant and Equipment, Net**

| <b>Cost</b>  | <b>Land</b> | <b>Buildings</b> | <b>Machinery and Equipment</b> | <b>Refrigeration Equipment</b> | <b>Returnable Bottles</b> | <b>Investments in Fixed Assets in Progress</b> | <b>Leasehold Improvements</b> | <b>Other</b> | <b>Total</b> |
|--|-------------|------------------|--------------------------------|--------------------------------|---------------------------|--|-------------------------------|--------------|--------------|
| Cost as of January 1, 2014                               | Ps. 7,094   | Ps. 17,544       | Ps. 49,877                     | Ps. 13,389                     | Ps. 7,386                 | Ps. 7,039                                      | Ps. 10,693                    | Ps. 1,566    | Ps. 114,588  |
| Additions  | 803         | 54               | 4,156                          | 32                             | 398                       | 11,209   | 99                            | 234          | 16,985       |
| Changes in fair value of past acquisitions               | (115)       | (610)            | 891                            | (57)                           |                           | (68)   | 99                            | (253)        | (113)        |
| Transfer of completed projects in progress               |             | 1,717            | 2,823                          | 1,523                          | 1,994                     | (10,050)                                       | 1,990                         | 3            |              |
| Transfer (to)/from assets classified as held for sale    |             |                  | (134)                          |                                |                           |  |                               |              | (134)        |
| Disposals  | (17)        | (144)            | (2,243)                        | (632)                          | (60)                      | (5)  | (587)                         | (79)         | (3,767)      |
| Effects of changes in foreign exchange rates             | (664)       | (3,125)          | (5,415)                        | (1,975)                        | (323)                     | (545)  | (44)                          | (506)        | (12,597)     |
| Changes in value on the recognition of inflation effects | 110         | 355              | 531                            | 186                            | 7                         | 29   |                               | 110          | 1,328        |
| Capitalization of borrowing costs                        |             |                  | 33                             |                                |                           | 263  |                               |              | 296          |

Cost as of December 31, 2014 Ps. 7,211 Ps. 15,791 Ps. 50,519 Ps. 12,466 Ps. 9,402 Ps. 7,872 Ps. 12,250 Ps. 1,075 Ps. 116,586

| <b>Cost</b>  | <b>Land</b> | <b>Buildings</b> | <b>Machinery and Equipment</b> | <b>Refrigeration Equipment</b> | <b>Returnable Bottles</b> | <b>Investments in Fixed Assets in Progress</b> | <b>Leasehold Improvements</b> | <b>Other</b> | <b>Total</b> |
|--|-------------|------------------|--------------------------------|--------------------------------|---------------------------|--|-------------------------------|--------------|--------------|
| Cost as of January 1, 2015                               | Ps. 7,211   | Ps. 15,791       | Ps. 50,519                     | Ps. 12,466                     | Ps. 9,402                 | Ps. 7,872                                      | Ps. 12,250                    | Ps. 1,075    | Ps. 116,586  |
| Additions  | 675         | 1,688            | 5,122                          | 851                            | 1,655                     | 6,942  | 41                            | 511          | 17,485       |
| Additions from business acquisitions                     | 30          | 251              | 870                            |                                |                           |  | 862                           |              | 2,013        |
| Transfer of completed projects in progress               | 59          | 1,289            | 3,251                          | 1,168                          | 662                       | (8,143)  | 1,714                         |              |              |
| Transfer (to)/from assets classified as held for sale    |             |                  | (10)                           |                                |                           |  |                               |              | (10)         |
| Disposals  | (56)        | (219)            | (2,694)                        | (972)                          | (103)                     |  | (356)                         | (40)         | (4,440)      |
| Effects of changes in foreign exchange rates             | (595)       | (1,352)          | (4,330)                        | (1,216)                        | (266)                     | (1,004)  | (23)                          | (848)        | (9,634)      |
| Changes in value on the recognition of inflation effects | 245         | 503              | 957                            | 295                            | 301                       | 91   |                               | 229          | 2,621        |
| Capitalization of borrowing costs                        |             |                  |                                |                                |                           | 57   |                               |              | 57           |

Cost as of December 31, 2015 Ps. 7,569 Ps. 17,951 Ps. 53,685 Ps. 12,592 Ps. 11,651 Ps. 5,815 Ps. 14,488 Ps. 927 Ps. 124,678

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| Cost   | Investments |            |                         |                         |                    |                             |                        |           | Total       |
|--|-------------|------------|-------------------------|-------------------------|--------------------|-----------------------------|------------------------|-----------|-------------|
|  | Land        | Buildings  | Machinery and Equipment | Refrigeration Equipment | Returnable Bottles | in Fixed Assets in Progress | Leasehold Improvements | Other     |             |
| Cost as of January 1, 2016                               | Ps. 7,569   | Ps. 17,951 | Ps. 53,685              | Ps. 12,592              | Ps. 11,651         | Ps. 5,815                   | Ps. 14,488             | Ps. 927   | Ps. 124,678 |
| Additions  | 328         | 877        | 6,499                   | 73                      | 2,236              | 8,667                       | 36                     | 367       | 19,083      |
| Additions from business acquisitions                     | 163         | 763        | 1,521                   | 105                     | 23                 | 45                          | 668                    |           | 3,288       |
| Changes in fair value of past acquisitions               | 50          |            | 85                      |                         |                    |                             | 115                    |           | 250         |
| Transfer of completed projects in progress               | 46          | 1,039      | 2,445                   | 1,978                   | 779                | (8,493)                     | 2,206                  |           |             |
| Transfer (to)/from assets classified as held for sale    |             |            | (36)                    |                         |                    |                             |                        |           | (36)        |
| Disposals  | (88)        | (202)      | (2,461)                 | (574)                   | (139)              | (2)                         | (474)                  | (19)      | (3,959)     |
| Effects of changes in foreign exchange rates             | 260         | 2,643      | 5,858                   | 1,953                   | 1,271              | 569                         | 329                    | (132)     | 12,751      |
| Changes in value on the recognition of inflation effects | 854         | 1,470      | 2,710                   | 851                     | 122                | 415                         |                        | 942       | 7,364       |
| Capitalization of borrowing costs                        |             |            | 61                      |                         |                    | (38)                        |                        | 1         | 24          |
| Cost as of December 31, 2016                             | Ps. 9,182   | Ps. 24,541 | Ps. 70,367              | Ps. 16,978              | Ps. 15,943         | Ps. 6,978                   | Ps. 17,368             | Ps. 2,086 | Ps. 163,443 |

| Accumulated Depreciation                                 | Investments |             |                         |                         |                    |                             |                        |           | Total        |
|--|-------------|-------------|-------------------------|-------------------------|--------------------|-----------------------------|------------------------|-----------|--------------|
|  | Land        | Buildings   | Machinery and Equipment | Refrigeration Equipment | Returnable Bottles | in Fixed Assets in Progress | Leasehold Improvements | Other     |              |
| Accumulated Depreciation as of January 1, 2014           | Ps.         | Ps. (4,674) | Ps. (21,779)            | Ps. (6,976)             | Ps. (3,480)        | Ps.                         | Ps. (3,270)            | Ps. (454) | Ps. (40,633) |
| Depreciation for the year                                |             | (466)       | (4,525)                 | (1,181)                 | (1,879)            |                             | (863)                  | (115)     | (9,029)      |
| Transfer (to)/from assets classified as held for sale    |             |             | 62                      |                         |                    |                             |                        |           | 62           |
| Disposals  |             | 77          | 2,086                   | 602                     | 57                 |                             | 517                    | 1         | 3,340        |
| Effects of changes in foreign exchange rates             |             | 1,512       | 3,481                   | 1,046                   | 105                |                             | 2                      | 236       | 6,382        |
| Changes in value on the recognition of inflation effects |             | (175)       | (707)                   | (135)                   | (8)                |                             |                        | (54)      | (1,079)      |
| Accumulated Depreciation as of December 31, 2014         | Ps.         | Ps. (3,726) | Ps. (21,382)            | Ps. (6,644)             | Ps. (5,205)        | Ps.                         | Ps. (3,614)            | Ps. (386) | Ps. (40,957) |

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| Accumulated Depreciation                                 | Land | Buildings   | Machinery<br>and<br>Equipment | Refrigeration<br>Equipment | Returnable<br>Bottles | Investments<br>in<br>Fixed<br>Assets<br>in |                           |           | Other        | Total |
|--|------|-------------|-------------------------------|----------------------------|-----------------------|--|---------------------------|-----------|--------------|-------|
|  |      |             |                               |                            |                       | Progress                                   | Leasehold<br>Improvements |           |              |       |
| Accumulated Depreciation as of January 1, 2015           | Ps.  | Ps. (3,726) | Ps. (21,382)                  | Ps. (6,644)                | Ps. (5,205)           | Ps.  | Ps. (3,614)               | Ps. (386) | Ps. (40,957) |       |
| Depreciation for the year                                |      | (515)       | (4,864)                       | (1,184)                    | (1,984)               |  | (1,071)                   | (143)     | (9,761)      |       |
| Disposals  |      | 172         | 2,001                         | 946                        | 80                    |  | 270                       | 2         | 3,471        |       |
| Effects of changes in foreign exchange rates             |      | 498         | 2,222                         | 1,044                      | 167                   |  | 22                        | 212       | 4,165        |       |
| Changes in value on the recognition of inflation effects |      | (187)       | (426)                         | (166)                      | (436)                 |  | 1                         | (86)      | (1,300)      |       |
| Accumulated Depreciation as of December 31, 2015         | Ps.  | Ps. (3,758) | Ps. (22,449)                  | Ps. (6,004)                | Ps. (7,378)           | Ps.  | Ps. (4,392)               | Ps. (401) | Ps. (44,382) |       |

| Accumulated Depreciation                                 | Land | Buildings   | Machinery<br>and<br>Equipment | Refrigeration<br>Equipment | Returnable<br>Bottles | Investments<br>in<br>Fixed<br>Assets<br>in |                           |           | Other        | Total |
|--|------|-------------|-------------------------------|----------------------------|-----------------------|--|---------------------------|-----------|--------------|-------|
|  |      |             |                               |                            |                       | Progress                                   | Leasehold<br>Improvements |           |              |       |
| Accumulated Depreciation as of January 1, 2016           | Ps.  | Ps. (3,758) | Ps. (22,449)                  | Ps. (6,004)                | Ps. (7,378)           | Ps.  | Ps. (4,392)               | Ps. (401) | Ps. (44,382) |       |
| Depreciation for the year                                |      | (734)       | (5,737)                       | (1,723)                    | (2,235)               |  | (1,447)                   | (200)     | (12,076)     |       |
| Transfer to/(from) assets classified as held for sale    |      |             | 16                            |                            |                       |  |                           |           | 16           |       |
| Disposals  |      | 132         | 2,101                         | 672                        | 227                   |  | 364                       | 9         | 3,505        |       |
| Effects of changes in foreign exchange rates             |      | (600)       | (3,093)                       | (1,147)                    | (847)                 |  | (81)                      | 39        | (5,729)      |       |
| Changes in value on the recognition of inflation effects |      | (593)       | (1,101)                       | (521)                      | (33)                  |  |                           | (306)     | (2,554)      |       |
| Accumulated Depreciation as of December 31, 2016         | Ps.  | Ps. (5,553) | Ps. (30,263)                  | Ps. (8,723)                | Ps. (10,266)          | Ps.  | Ps. (5,556)               | Ps. (859) | Ps. (61,220) |       |

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

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

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

|  | <b>2016</b>      | 2015      | 2014      |
|--|------------------|-----------|-----------|
| Interest expense, interest income and net foreign exchange | <b>Ps. 7,285</b> | Ps. 8,031 | Ps. 7,080 |
| Amount capitalized <sup>(1)</sup>                          | <b>69</b>        | 85        | 338       |
| <b>Net amount in consolidated income statements</b>        | <b>Ps. 7,216</b> | Ps. 7,946 | Ps. 6,742 |

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

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

**Table of Contents****Note 12. Intangible Assets**

| <b>Cost</b>  | <b>Rights to Produce and Distribute Coca-Cola Trademark Products</b> | <b>Goodwill</b>   | <b>Trademark Rights</b> | <b>Other Indefinite Lived Intangible Assets</b> | <b>Total Unamortized Intangible Assets</b> | <b>Technology Costs and Management Systems</b> | <b>Systems in Development</b> | <b>Alcohol Licenses</b> | <b>Other</b>   | <b>Total Amortized Intangible Assets</b> | <b>Total Intangible Assets</b> |
|--|--|-------------------|-------------------------|---|--|--|-------------------------------|-------------------------|----------------|--|--------------------------------|
| Cost as of January 1, 2014                               | Ps. 75,727   | Ps. 21,308        | Ps. 1,515               | Ps. 272   | Ps. 98,822                                 | Ps. 3,219                                      | Ps. 1,604                     | Ps. 859                 | Ps. 690        | Ps. 6,372                                | Ps. 105,194                    |
| Purchases  |  |                   |                         | 13  | 13   | 227  | 229                           | 168                     | 44             | 668                                      | 681                            |
| Change in fair value of past acquisitions                | (2,416)  | 4,117             |                         | (205)   | 1,496                                      |  |                               |                         | (17)           | (17)                                     | 1,479                          |
| Transfer of completed development systems                |  |                   |                         |   |  | 278  | (278)                         |                         |                |  |                                |
| Disposals  |  |                   |                         | (8)   | (8)  | (387)  |                               |                         | (33)           | (420)                                    | (428)                          |
| Effect of movements in exchange rates                    | (5,343)  | (251)             | (1)                     | (9)   | (5,604)                                    | (152)  | (1)                           |                         | (13)           | (166)                                    | (5,770)                        |
| Changes in value on the recognition of inflation effects | 2,295  |                   |                         |   | 2,295                                      | (2)  |                               |                         |                | (2)                                      | 2,293                          |
| Capitalization of borrowing costs                        |  |                   |                         |   |  | 42   |                               |                         |                | 42                                       | 42                             |
| <b>Cost as of December 31, 2014</b>                      | <b>Ps. 70,263</b>  | <b>Ps. 25,174</b> | <b>Ps. 1,514</b>        | <b>Ps. 63</b>                                   | <b>Ps. 97,014</b>                          | <b>Ps. 3,225</b>                               | <b>Ps. 1,554</b>              | <b>Ps. 1,027</b>        | <b>Ps. 671</b> | <b>Ps. 6,477</b>                         | <b>Ps. 103,491</b>             |
| <b>Cost as of January 1, 2015</b>                        | <b>Ps. 70,263</b>  | <b>Ps. 25,174</b> | <b>Ps. 1,514</b>        | <b>Ps. 63</b>                                   | <b>Ps. 97,014</b>                          | <b>Ps. 3,225</b>                               | <b>Ps. 1,554</b>              | <b>Ps. 1,027</b>        | <b>Ps. 671</b> | <b>Ps. 6,477</b>                         | <b>Ps. 103,491</b>             |
| Purchases  |  |                   |                         |   |  | 480  | 458                           | 198                     | 83             | 1,219                                    | 1,219                          |
| Acquisitions from business combinations                  |  | 11,369            |                         | 1,238   | 12,607                                     | 328  |                               |                         | 199            | 527                                      | 13,134                         |
| Transfer of completed development systems                |  |                   |                         |   |  | 1,085  | (1,085)                       |                         |                |  |                                |
| Disposals  |  |                   |                         |   |  | (150)  | (242)                         |                         | (77)           | (469)                                    | (469)                          |
| Effect of movements in exchange rates                    | (4,992)  | (2,693)           | (33)                    | (19)  | (7,737)                                    | (94)   | (2)                           |                         | (16)           | (112)                                    | (7,849)                        |
| Changes in value on the recognition of inflation effects | 1,121  |                   |                         |   | 1,121                                      | (12)   |                               |                         |                | (12)                                     | 1,109                          |
| Capitalization of borrowing costs                        |  |                   |                         |   |  | 28   |                               |                         |                | 28                                       | 28                             |
|  | <b>Ps. 66,392</b>  | <b>Ps. 33,850</b> | <b>Ps. 1,481</b>        | <b>Ps. 1,282</b>                                | <b>Ps. 103,005</b>                         | <b>Ps. 4,890</b>                               | <b>Ps. 683</b>                | <b>Ps. 1,225</b>        | <b>Ps. 860</b> | <b>Ps. 7,658</b>                         | <b>Ps. 110,663</b>             |

Cost as of  
December 31,  
2015

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| Cost   | Rights to Produce and Distribute Coca-Cola Trademark Products | Goodwill   | Trademark Rights | Other Indefinite Lived Intangible Assets | Total Unamortized Intangible Assets | Technology Costs and Management Systems | Systems in Development | Alcohol Licenses | Other     | Total Amortized Assets | Total Intangible Assets |
|--|---|------------|------------------|--|-------------------------------------|---|------------------------|------------------|-----------|------------------------|-------------------------|
| <b>Cost as of January 1, 2016</b>                        | Ps. 66,392  | Ps. 33,850 | Ps. 1,481        | Ps. 1,282                                | Ps. 103,005                         | Ps. 4,890                               | Ps. 683                | Ps. 1,225        | Ps. 860   | Ps. 7,658              | Ps. 110,663             |
| Purchases  |   |            | 3                |  | 3                                   | 345                                     | 609                    | 191              | 146       | 1,291                  | 1,296                   |
| Acquisitions from business combinations (See note 4)     | 9,602   | 12,276     | 239              | 1,067                                    | 23,184                              | 318                                     | 3                      |                  | 174       | 495                    | 23,679                  |
| Changes in fair value of past acquisitions               |   | (2,385)    | 4,315            | (554)                                    | 1,376                               |   |                        |                  | 1,078     | 1,078                  | 2,372                   |
| Internally development                                   |   |            |                  |  |                                     |   |                        |                  |           |                        |                         |
| Transfer of completed development systems                |   |            |                  |  |                                     | 304                                     | (304)                  |                  |           |                        |                         |
| Disposals  |   |            |                  |  |                                     | (336)                                   |                        |                  | (24)      | (360)                  | (360)                   |
| Effect of movements in exchange rates                    | 8,124   | 8,116      | 187              | 392                                      | 16,819                              | 451                                     | (193)                  |                  | 104       | 362                    | 17,181                  |
| Changes in value on the recognition of inflation effects | 1,220   |            |                  |  | 1,220                               | 141                                     |                        |                  |           | 141                    | 1,361                   |
| Capitalization of borrowing costs                        |   |            |                  |  |                                     | 11                                      |                        |                  |           | 11                     | 11                      |
| <b>Cost as of December 31, 2016</b>                      | Ps. 85,338  | Ps. 51,857 | Ps. 6,225        | Ps. 2,187                                | Ps. 145,607                         | Ps. 6,124                               | Ps. 798                | Ps. 1,416        | Ps. 2,338 | Ps. 10,676             | Ps. 156,283             |
| <b>Amortization and Impairment Losses</b>                |   |            |                  |  |                                     |   |                        |                  |           |                        |                         |
| Amortization as of January 1, 2014                       | Ps.   | Ps.        | Ps.              | Ps.                                      | Ps.                                 | Ps. (1,462)                             | Ps.                    | Ps. (177)        | Ps. (262) | Ps. (1,901)            | Ps. (1,901)             |
| Amortization expense                                     |   |            |                  |  |                                     | (268)                                   |                        | (58)             | (97)      | (423)                  | (423)                   |
| Impairment losses  |   |            |                  | (36)                                     | (36)                                |   |                        |                  |           |                        | (36)                    |
| Disposals  |   |            |                  |  |                                     | 387                                     |                        |                  |           | 387                    | 387                     |
| Effect of movements in exchange rates                    |   |            |                  |  |                                     |   |                        |                  | 9         | 9                      | 9                       |
| <b>Amortization as of December 31, 2014</b>              | Ps.   | Ps.        | Ps.              | Ps. (36)                                 | Ps. (36)                            | Ps. (1,343)                             | Ps.                    | Ps. (235)        | Ps. (350) | Ps. (1,928)            | Ps. (1,964)             |
|  | Ps.   | Ps.        | Ps.              | Ps. (36)                                 | Ps. (36)                            | Ps. (1,343)                             | Ps.                    | Ps. (235)        | Ps. (350) | Ps. (1,928)            | Ps. (1,964)             |



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|   |            |            |            |                 |                 |                    |            |                  |                  |                    |                    |
|---|------------|------------|------------|-----------------|-----------------|--------------------|------------|------------------|------------------|--------------------|--------------------|
| <b>Amortization as of January 1, 2015</b>   |            |            |            |                 |                 |                    |            |                  |                  |                    |                    |
| Amortization expense                        |            |            |            |                 | (461)           |                    | (67)       | (76)             | (604)            | (604)              |                    |
| Disposals                                   |            |            |            |                 | 126             |                    |            | 42               | 168              | 168                |                    |
| Effect of movements in exchange rates       |            |            |            |                 | 59              |                    |            | 19               | 78               | 78                 |                    |
| <b>Amortization as of December 31, 2015</b> |            |            |            |                 |                 |                    |            |                  |                  |                    |                    |
|   | <b>Ps.</b> | <b>Ps.</b> | <b>Ps.</b> | <b>Ps. (36)</b> | <b>Ps. (36)</b> | <b>Ps. (1,619)</b> | <b>Ps.</b> | <b>Ps. (302)</b> | <b>Ps. (365)</b> | <b>Ps. (2,286)</b> | <b>Ps. (2,322)</b> |

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

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

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

|                         | 2016           | 2015    | 2014    |
|-------------------------|----------------|---------|---------|
| Cost of goods sold      | Ps. 84         | Ps. 61  | Ps. 12  |
| Administrative expenses | 677            | 407     | 156     |
| Selling expenses        | 160            | 136     | 255     |
|                         | <b>Ps. 921</b> | Ps. 604 | Ps. 423 |

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

|   | Years        |
|---|--------------|
| Technology Costs and Management Systems   | <b>3-10</b>  |
| Alcohol Licenses  | <b>12-15</b> |
| <b>Coca-Cola FEMSA Impairment Tests for Cash-Generating Units Containing Goodwill and Distribution Rights</b> |              |

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

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

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

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

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

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

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

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

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

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

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

Cash flows were projected based on actual operating results and the five-year business plan. Cash flows for a further five-year were forecasted maintaining the same stable growth and margins per country of the last year base. Coca-Cola FEMSA believes that this forecasted period is justified due to the non-current nature of the business and past experiences.

Cash flows after the first ten-year period were extrapolated using a perpetual growth rate equal to the expected annual population growth, in order to calculate the terminal recoverable amount.

A per CGU-specific Weighted Average Cost of Capital ( WACC ) was applied as a hurdle rate to discount cash flows to get the recoverable amount of the units; the calculation assumes, size premium adjusting.

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

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



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

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

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

**Sensitivity to Changes in Assumptions**

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

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

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

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

(1) Compound Annual Growth Rate (CAGR).

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**FEMSA Comercio Impairment Test for Cash-Generating Units Containing Goodwill**

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

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

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

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

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

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

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

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

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

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

Cash flows were projected based on actual operating results and the five-year business plan. FEMSA Comercio believes that this forecasted period is justified due to the non-current nature of the business and past experiences.

Cash flows projected based on actual operating results and five-year business plan were calculated using a perpetual growth rate equal to the expected annual population growth, in order to calculate the terminal recoverable amount.

A per CGU-specific Weighted Average Cost of Capital ( WACC ) was applied as a hurdle rate to discount cash flows to get the recoverable amount of the units; the calculation assumes, size premium adjusting.

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

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

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

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

**Sensitivity to Changes in Assumptions**

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

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

(1) Compound Annual Growth Rate.

**Note 13. Other Assets and Other Financial Assets***13.1 Other assets*

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



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- (1) As it is customary in Brazil, the Company is required to collateralize tax, legal and labor contingencies by guarantee deposits including those related to business acquisitions (see Note 25.7).
- (2) Corresponds to indemnifiable assets that are warranted by former Vonpar owners as per the share purchase agreement.

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**Table of Contents***13.2 Other financial assets*

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

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

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

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

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

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

(1) Presented within accounts receivable.

(2) Presented within cash and cash equivalents.

(3) Presented within other financial assets.

(4) Presented within other current financial assets.

(5) Recorded within bank loans and notes payable.

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- (6) Recorded within accounts payable.
- (7) Associates.
- (8) Non controlling interest.

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

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

(1) Associates.

(2) Non controlling interest.

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

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

*Commitments with related parties*

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

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

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

**Note 15. Balances and Transactions in Foreign Currencies**

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

| Balances                       | Assets            |                  | Liabilities      |                    |
|--------------------------------|-------------------|------------------|------------------|--------------------|
|                                | Short-Term        | Long-Term        | Short-Term       | Long-Term          |
| <b>As of December 31, 2016</b> |                   |                  |                  |                    |
| U.S. dollars                   | Ps. 17,796        | Ps. 696          | Ps. 4,540        | Ps. 88,611         |
| Euros                          | 246               |                  | 345              | 21,774             |
| Other currencies               | 5                 | 1,581            | 246              | 1,190              |
| <b>Total</b>                   | <b>Ps. 18,047</b> | <b>Ps. 2,277</b> | <b>Ps. 5,131</b> | <b>Ps. 111,575</b> |

|                                |                   |                  |                  |                   |
|--------------------------------|-------------------|------------------|------------------|-------------------|
| <b>As of December 31, 2015</b> |                   |                  |                  |                   |
| U.S. dollars                   | Ps. 10,939        | Ps. 630          | Ps. 1,672        | Ps. 71,123        |
| Euros                          | 3                 |                  | 23               |                   |
| Other currencies               |                   | 1,173            | 152              | 41                |
| <b>Total</b>                   | <b>Ps. 10,942</b> | <b>Ps. 1,803</b> | <b>Ps. 1,847</b> | <b>Ps. 71,164</b> |

| Transactions                                | Purchases        |                  |                   |                  |                 |                     |                  |
|---|------------------|------------------|-------------------|------------------|-----------------|---------------------|------------------|
|   | Revenues         | Other Revenues   | of Raw Materials  | Interest Expense | Consulting Fees | Assets Acquisitions | Other            |
| <b>For the year ended December 31, 2016</b> |                  |                  |                   |                  |                 |                     |                  |
| U.S. dollars                                | Ps. 4,068        | Ps. 1,281        | Ps. 14,961        | Ps. 3,173        | Ps. 182         | Ps. 407             | Ps. 3,339        |
| Euros                                       | 6                | 1,987            | 104               | 355              | 43              |                     | 5                |
| Other currencies                            | 29               | 150              |                   | 150              | 185             |                     | 4                |
| <b>Total</b>                                | <b>Ps. 4,103</b> | <b>Ps. 3,418</b> | <b>Ps. 15,065</b> | <b>Ps. 3,678</b> | <b>Ps. 410</b>  | <b>Ps. 407</b>      | <b>Ps. 3,348</b> |

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| Transactions                                | Revenues         | Other Revenues | Purchases of Raw Materials | Interest Expense | Consulting Fees | Assets Acquisitions | Other            |
|---|------------------|----------------|----------------------------|------------------|-----------------|---------------------|------------------|
| <b>For the year ended December 31, 2015</b> |                  |                |                            |                  |                 |                     |                  |
| U.S. dollars                                | Ps. 1,891        | Ps. 472        | Ps. 11,710                 | Ps. 1,973        | Ps. 34          | Ps. 75              | Ps. 2,035        |
| Euros                                       |                  | 1              | 2                          |                  | 2               |                     | 37               |
| Other currencies                            | 20               |                |                            |                  |                 |                     | 204              |
| <b>Total</b>                                | <b>Ps. 1,911</b> | <b>Ps. 473</b> | <b>Ps. 11,712</b>          | <b>Ps. 1,973</b> | <b>Ps. 36</b>   | <b>Ps. 75</b>       | <b>Ps. 2,276</b> |
| <b>For the year ended December 31, 2014</b> |                  |                |                            |                  |                 |                     |                  |
| U.S. dollars                                | Ps. 2,817        | Ps. 641        | Ps. 15,006                 | Ps. 1,669        | Ps. 14          | Ps. 478             | Ps. 2,068        |
| Euros                                       | 7                |                | 80                         | 15               |                 | 5                   | 13               |
| Other currencies                            | 178              |                | 10                         |                  |                 |                     | 4                |
| <b>Total</b>                                | <b>Ps. 3,002</b> | <b>Ps. 641</b> | <b>Ps. 15,096</b>          | <b>Ps. 1,684</b> | <b>Ps. 14</b>   | <b>Ps. 483</b>      | <b>Ps. 2,085</b> |

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

|             | December 31, 2016 | December 31, 2015 | April 12, 2017 |
|-------------|-------------------|-------------------|----------------|
| U.S. dollar | 20.6640           | 17.2065           | 18.6923        |
| Euro        | 21.7741           | 18.7873           | 19.8817        |

**Note 16. Employee Benefits**

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

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

*16.1 Assumptions*

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

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

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

Measurement date December:

- (1) EMSSA. Mexican Experience of social security.
- (2) IMSS. Mexican Experience of Instituto Mexicano del Seguro Social.
- (3) BMAR. Actuary experience.

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

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

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

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

*16.2 Balances of the liabilities for employee benefits*

|                                      | December 31,<br>2016 | December 31,<br>2015 |
|--------------------------------------|----------------------|----------------------|
| <b>Pension and Retirement Plans:</b> |                      |                      |
| Defined benefit obligation           | Ps. 5,702            | Ps. 5,308            |
| Pension plan funds at fair value     | (2,216)              | (2,068)              |
| Net defined benefit liability        | Ps. 3,486            | Ps. 3,240            |

| <b>Seniority Premiums:</b>                 |            |              |           |
|--|------------|--------------|-----------|
| Defined benefit obligation                 | <b>Ps.</b> | <b>663</b>   | Ps. 610   |
| Seniority premium plan funds at fair value |            | <b>(102)</b> | (103)     |
| Net defined benefit liability              | <b>Ps.</b> | <b>561</b>   | Ps. 507   |
| <b>Postretirement Medical Services:</b>    |            |              |           |
| Defined benefit obligation                 | <b>Ps.</b> | <b>460</b>   | Ps. 404   |
| Medical services funds at fair value       |            | <b>(60)</b>  | (57)      |
| Net defined benefit liability              | <b>Ps.</b> | <b>400</b>   | Ps. 347   |
| <b>Post-employment:</b>                    |            |              |           |
| Net defined benefit liability              | <b>Ps.</b> |              | Ps. 135   |
| <b>Total employee benefits</b>             | <b>Ps.</b> | <b>4,447</b> | Ps. 4,229 |

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**Table of Contents***16.3 Trust assets*

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

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

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.

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

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

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

|                                 | Income Statement           |                      |  | OCI <sup>(1)</sup><br>Remeasurements                          |   |
|---------------------------------|----------------------------|----------------------|--|---|---|
|                                 | Current<br>Service<br>Cost | Past Service<br>Cost | Gain or<br>Loss<br>on Settlement<br>or Curtailment | Net Interest<br>on the Net<br>Defined<br>Benefit<br>Liability | of the Net<br>Defined<br>Benefit<br>Liability |
| <b>December 31, 2016</b>        |                            |                      |  |   |   |
| Pension and retirement plans    | Ps. 245                    | Ps. 45               | Ps. (61)   | Ps. 224   | Ps. 1,102                                     |
| Seniority premiums              | 92                         |                      |  | 34  | 18  |
| Postretirement medical services | 22                         |                      |  | 24  | 151   |
| Total                           | Ps. 359                    | Ps. 45               | Ps. (61)   | Ps. 282   | Ps. 1,271                                     |
|                                 |                            |                      |  |   |   |
| <b>December 31, 2015</b>        |                            |                      |  |   |   |
| Pension and retirement plans    | Ps. 233                    | Ps. 3                | Ps. (120)  | Ps. 212   | Ps. 913                                       |
| Seniority premiums              | 88                         |                      | (9)  | 32  | 39  |
| Postretirement medical services | 16                         |                      |  | 23  | 119   |
| Post-employment Venezuela       | 6                          |                      |  | 9   |   |
| Total                           | Ps. 343                    | Ps. 3                | Ps. (129)  | Ps. 276   | Ps. 1,071                                     |



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|                                 | <b>Current<br/>Service<br/>Cost</b> | <b>Past Service<br/>Cost</b> | <b>Gain or Loss<br/>on Settlement</b> | <b>Net Interest<br/>on the Net<br/>Defined<br/>Benefit<br/>Liability</b> | <b>Remeasurements<br/>of the Net<br/>Defined<br/>Benefit<br/>Liability</b> |
|---------------------------------|-------------------------------------|------------------------------|---------------------------------------|--|--|
| <b>December 31, 2014</b>        |                                     |                              |                                       |  |  |
| Pension and retirement plans    | Ps. 221                             | Ps. 54                       | Ps. (193)                             | Ps. 279  | Ps. 998  |
| Seniority premiums              | 75                                  | 9                            | (27)                                  | 28   | 76   |
| Postretirement medical services | 10                                  |                              |                                       | 16   | 74   |
| Post-employment Venezuela       | 24                                  |                              |                                       | 18   | 99   |
| <b>Total</b>                    | <b>Ps. 330</b>                      | <b>Ps. 63</b>                | <b>Ps. (220)</b>                      | <b>Ps. 341</b>   | <b>Ps. 1,247</b>   |

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

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

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

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

Remeasurements of the net defined benefit liability include the following:

The return on plan assets, excluding amounts included in net interest expense.

Actuarial gains and losses arising from changes in demographic assumptions.

Actuarial gains and losses arising from changes in financial assumptions.

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

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

*16.6 Changes in the balance of plan assets*

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

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.

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*16.7 Variation in assumptions*

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

Discount rate: The rate that determines the value of the obligations over time.

Salary increase rate: The rate that considers the salary increase which implies an increase in the benefit payable.

Healthcare cost increase rate: The rate that considers the trends of health care costs which implies an impact on the postretirement medical service obligations and the cost for the year.

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

| <b>+0.5%:</b>   | <b>Income Statement</b>     |                          |  | <b>OCI <sup>(1)</sup></b>  |  |
|---|-----------------------------|--------------------------|--|--|--|
| <b>Discount rate used to calculate the defined benefit obligation and the net interest on the net defined benefit liability</b> | <b>Current Service Cost</b> | <b>Past Service Cost</b> | <b>Gain or Loss on Settlement or Curtailment</b> | <b>Effect of Net Interest on the Net Defined Benefit Liability (Asset)</b> | <b>Remeasurements of the Net Defined Benefit Liability (Asset)</b> |
| Pension and retirement plans  | Ps. 236                     | Ps. 43                   | Ps. (57)   | Ps. 217  | Ps. 648  |
| Seniority premiums  | 89                          |                          |  | 34   | (22)   |
| Postretirement medical services   | 20                          |                          |  | 23   | 126  |
| Post-employment   |                             |                          |  |  |  |
| <b>Total</b>  | <b>Ps. 345</b>              | <b>Ps. 43</b>            | <b>Ps. (57)</b>                                  | <b>Ps. 274</b>   | <b>Ps. 752</b>   |
| <b>Expected salary increase</b>   |                             |                          |  | <b>Effect of Net Interest on the Net Defined Benefit Liability (Asset)</b> | <b>Remeasurements of the Net Defined Benefit Liability (Asset)</b> |
| Pension and retirement plans  | Ps. 257                     | Ps. 48                   | Ps. (66)   | Ps. 240  | Ps. 1,043  |
| Seniority premiums  | 100                         | 1                        |  | 37   | 69   |
| Postretirement medical services   | 21                          |                          |  | 24   | 151  |
| Post-employment   |                             |                          |  |  |  |
| <b>Total</b>  | <b>Ps. 378</b>              | <b>Ps. 49</b>            | <b>Ps. (66)</b>                                  | <b>Ps. 301</b>   | <b>Ps. 1,263</b>   |
| <b>Assumed rate of increase in healthcare costs</b>   |                             |                          |  |  |  |
| Postretirement medical services   | Ps. 22                      | Ps.                      | Ps.  | Ps. 25   | Ps. 193  |

-0.5%:

Discount rate used to calculate the

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

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



**Table of Contents***16.8 Employee benefits expense*

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

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

**Note 17. Bonus Programs***17.1 Quantitative and qualitative objectives*

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

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

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

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*17.2 Share-based payment bonus plan*

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

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

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

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

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

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

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

**Note 18. Bank Loans and Notes Payables**

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



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

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

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

(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.

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

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

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

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

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

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

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

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

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

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

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

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



**Table of Contents****Note 19. Other Income and Expenses**

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

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

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

**Note 20. Financial Instruments****Fair Value of Financial Instruments**

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

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

**Table of Contents***20.1 Total debt*

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

|                |                    |            |
|----------------|--------------------|------------|
|                | <b>2016</b>        | 2015       |
| Carrying value | <b>Ps. 139,248</b> | Ps. 91,864 |
| Fair value     | <b>140,284</b>     | 91,551     |

*20.2 Interest rate swaps*

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

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

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

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

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

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

**Table of Contents***20.3 Forward agreements to purchase foreign currency*

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

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

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

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Fair Value Liability<br/>December 31,<br/>2016</b> | <b>Fair Value Asset<br/>December 31,<br/>2016</b> |
|----------------------|------------------------|---|---|
| 2017                 | Ps. 8,265              | Ps. (247)   | Ps. 364   |

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

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Fair Value Liability<br/>December 31,<br/>2015</b> | <b>Fair Value Asset<br/>December 31,<br/>2015</b> |
|----------------------|------------------------|---|---|
| 2016                 | Ps. 6,735              | Ps. (84)  | Ps. 383   |

*20.4 Options to purchase foreign currency*

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

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

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

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Fair Value Liability<br/>December 31,<br/>2015</b> | <b>Fair Value Asset<br/>December 31,<br/>2015</b> |
|----------------------|------------------------|---|---|
| 2016                 | Ps. 1,612              | Ps.   | Ps. 65  |

**Table of Contents***20.5 Cross-currency swaps*

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

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

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

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

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

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

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

*20.6 Commodity price contracts*

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

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

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

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Fair Value Liability<br/>December 31,<br/>2016</b> |
|----------------------|------------------------|---|
| 2017                 | Ps. 572                | Ps. 370   |

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

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Fair Value Liability<br/>December 31,<br/>2016</b> |
|----------------------|------------------------|---|
| 2017                 | Ps. 74                 | Ps. 5   |

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

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Fair Value Liability<br/>December 31,<br/>2015</b> |
|----------------------|------------------------|---|
| 2016                 | Ps. 1,497              | Ps. (190)   |

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

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Fair Value Liability<br/>December 31,<br/>2015</b> |
|----------------------|------------------------|---|
| 2016                 | Ps. 436                | Ps. (84)  |

*20.7 Financial Instruments for CCFPI acquisition:*

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

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

**Table of Contents***20.8 Option embedded in the Promissory Note to fund the Vonpar's acquisition*

As disclosed in Note 4.1.1, 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 1,090 million Brazilian reais (approximately Ps.7,022 million as of December 31, 2016). The promissory note bears interest at an annual rate of 0.375%, and is denominated and payable in Brazilian reais. The promissory note 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. The holders of the promissory note have an option, that may be exercised prior to the scheduled maturity of the promissory note, to capitalize the Mexican peso amount equivalent to the amount payable under the promissory note into a recently incorporated Mexican company which would then be merged into the Coca-Cola FEMSA in exchange for Series L shares at a strike price of Ps.178.5 per share. Such capitalization and issuance of new Series L shares is subject to Coca-Cola FEMSA having a sufficient number of Series L shares available for issuance. Coca-Cola FEMSA uses Black & Scholes valuation technique to measure call option at fair value. The call option had an estimated fair value of Ps. 343 million at inception of the option and Ps. 368 million as of December 31, 2016. The option is recorded as part of the Promissory Note disclosed in Note 18.

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

*20.9 Net effects of expired contracts that met hedging criteria*

| Type of Derivatives                             | Impact in Consolidated<br>Income Statement | 2016  | 2015     | 2014 |
|---|--|-------|----------|------|
|   |  | Ps.   | Ps.      | Ps.  |
| Interest rate swaps                             | Interest expense                           |       |          | 337  |
| Cross currency swap <sup>(1)</sup>              | Interest expense                           |       | 2,595    |      |
| Cross currency swap <sup>(1)</sup>              | Foreign exchange                           |       | (10,911) |      |
| Forward agreements to purchase foreign currency | Foreign exchange                           | 1160  | (180)    | 38   |
| Commodity price contracts                       | Cost of goods sold                         | (241) | 619      | 291  |
| Options to purchase foreign currency            | Cost of goods sold                         |       | (21)     |      |
| Forward agreements to purchase foreign currency | Cost of goods sold                         | (45)  | (523)    | 22   |

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

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

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

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

| Type of Derivatives  | Impact in Consolidated Income Statement | 2016 | 2015 | 2014 |
|----------------------|---|------|------|------|
|                      |   | Ps.  | Ps.  | Ps.  |
| Cross-currency swaps | Market value gain on                    |      | 204  |      |
|                      | financial instruments                   |      |      |      |

*20.12 Market risk*

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



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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<br>Exchange Rate | Effect on<br>Equity |
|-----------------------|----------------------------|---------------------|
| <b>2016</b>           |                            |                     |
| FEMSA <sup>(1)</sup>  | -17% MXN/EUR               | Ps. 293             |
|                       | +17% MXN/EUR               | (293)               |
|                       | +11% CLP/USD               | 12                  |
|                       | -11% CLP/USD               | (12)                |
| Coca-Cola FEMSA       | -18% BRL/USD               | (203)               |
|                       | +18% BRL/USD               | 203                 |
|                       | -17% MXN/USD               | (916)               |
|                       | +17% MXN/USD               | 916                 |
|                       | -18% COP/USD               | (255)               |
|                       | +18% COP/USD               | 255                 |
| <b>2015</b>           |                            |                     |
| FEMSA <sup>(1)</sup>  | -14% MXN/EUR               | 319                 |
|                       | +14% MXN/EUR               | Ps. (319)           |
|                       | +10% CLP/USD               | 9                   |
|                       | -10% CLP/USD               | (9)                 |
|                       | -11% MXN/USD               | 197                 |
| Coca-Cola FEMSA       | +11% MXN/USD               | (197)               |
|                       | +21% BRL/USD               | (387)               |
|                       | +17% COP/USD               | (113)               |
|                       | -36% ARS/USD               | 231                 |
|                       | +36% ARS/USD               | (231)               |
|                       | -21% BRL/USD               | 387                 |
|                       | -17% COP/USD               | 113                 |
|                       | +17% COP/USD               | (113)               |
| <b>2014</b>           |                            |                     |
| FEMSA <sup>(1)</sup>  | -9% MXN/EUR                | Ps. 278             |
|                       | +9% MXN/EUR                | (278)               |
| Coca-Cola FEMSA       | -11% ARS/USD               | (22)                |
|                       | +11% ARS/USD               | 22                  |
|                       | -14% BRL/USD               | (96)                |



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|  |      |         |       |
|--|------|---------|-------|
|  | +14% | BRL/USD | 96    |
|  | -9%  | COP/USD | (42)  |
|  | +9%  | COP/USD | 42    |
|  | -7%  | MXN/USD | (119) |
|  | +7%  | MXN/USD | 119   |

(1) Does not include Coca-Cola FEMSA.

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

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

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

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

(3) Does not include Coca-Cola FEMSA.

| Commodity Price Contracts <sup>(1)</sup> | Change in U.S.\$ Rate | Effect on Equity |       |
|--|-----------------------|------------------|-------|
| <b>2016</b>                              |                       |                  |       |
| Coca-Cola FEMSA                          | <b>Sugar - 33%</b>    | Ps.              | (310) |
|  | <b>Aluminum - 16%</b> |                  | (13)  |
| <b>2015</b>                              |                       |                  |       |
| Coca-Cola FEMSA                          | Sugar - 31%           | Ps.              | (406) |
|  | Aluminum - 18%        |                  | (58)  |
| <b>2014</b>                              |                       |                  |       |
| Coca-Cola FEMSA                          | Sugar - 27%           | Ps.              | (528) |
|  | Aluminum - 17%        |                  | (87)  |

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

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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 <sup>(1)</sup> | Change in Bps. | Effect on Equity |
|-----------------------------------|----------------|------------------|
| <b>2016</b>                       |                |                  |
| FEMSA <sup>(2)</sup>              | (100 Bps.)     | Ps. (550)        |
| <b>2015</b>                       |                |                  |
| FEMSA <sup>(2)</sup>              | (100 Bps.)     | Ps. (542)        |
| <b>2014</b>                       |                |                  |
| FEMSA <sup>(2)</sup>              | (100 Bps.)     | Ps. (528)        |

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

(2) Does not include Coca-Cola FEMSA.

| Interest Effect of Unhedged Portion Bank Loans | 2016             | 2015      | 2014      |
|--|------------------|-----------|-----------|
| Change in interest rate                        | <b>+100 Bps.</b> | +100 Bps. | +100 Bps. |
| Effect on profit loss                          | <b>Ps. (354)</b> | Ps. (192) | Ps. (244) |

*20.14 Liquidity risk*

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

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

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

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

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

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

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

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

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

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



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

*20.15 Credit risk*

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

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

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

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

**Note 21. Non-Controlling Interest in Consolidated Subsidiaries**

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

|                 | <b>December 31,<br/>2016</b> | December 31,<br>2015 |
|-----------------|------------------------------|----------------------|
| Coca-Cola FEMSA | <b>Ps. 70,293</b>            | Ps. 58,340           |
| Other           | <b>3,973</b>                 | 1,992                |
|                 | <b>Ps. 74,266</b>            | Ps. 60,332           |

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

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

Non controlling cumulative other comprehensive loss is comprised as follows:

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

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

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

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



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**Note 22. Equity**

*22.1 Equity accounts*

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

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

The characteristics of the common shares are as follows:

Series B shares, with unlimited voting rights, which at all times must represent a minimum of 51% of total capital stock;

Series L shares, with limited voting rights, which may represent up to 25% of total capital stock; and

Series D shares, with limited voting rights, which individually or jointly with series L shares may represent up to 49% of total capital stock.

The Series D shares are comprised as follows:

Subseries D-L shares may represent up to 25% of the series D shares;

Subseries D-B shares may comprise the remainder of outstanding series D shares; and

The non-cumulative premium dividend to be paid to series D shareholders will be 125% of any dividend paid to series B shareholders. The Series B and D shares are linked together in related units as follows:

B units each of which represents five series B shares and which are traded on the BMV; and

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

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

|          | <b>B Units</b> | <b>BD Units</b> | <b>Total</b>  |
|----------|----------------|-----------------|---------------|
| 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 |

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|                     |                      |                       |
|---------------------|----------------------|-----------------------|
| Subseries D-B       | 4,322,355,540        | 4,322,355,540         |
| Subseries D-L       | 4,322,355,540        | 4,322,355,540         |
| <b>Total shares</b> | <b>7,085,242,500</b> | <b>10,805,888,850</b> |

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

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

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

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

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

At an ordinary shareholders' meeting of FEMSA held on March 19, 2015, the shareholders approved a dividend of

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

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

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

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

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

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

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

| Series of Shares | 2016               | 2015        |
|------------------|--------------------|-------------|
| B                | <b>Ps. 0.41666</b> | Ps. 0.36649 |
| D                | <b>0.52083</b>     | 0.45811     |

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

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

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

**Note 23. Earnings per Share**

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

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

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



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**Note 24. Income Taxes**

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

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

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

On January 1, 2015, a general tax reform became effective in Colombia. This reform included the imposition of a new temporary tax on net equity through 2017 to Colombian residents and non-residents who own property in Colombia directly or indirectly through branches or permanent establishments. The relevant taxable base will be determined annually based on a formula. For net equity that exceeds 5.0 billion Colombian pesos (approximately US\$2.1 million) the rate will be 1.15% in 2015, 1.00% in 2016 and 0.40% in 2017. In addition, the tax reform in Colombia imposed that the supplementary income tax at a rate of 9.0% as contributions to social programs, which was previously scheduled to decrease to 8.0% by 2015, will remain indefinitely. Additionally, this tax reform included the imposition of a temporary contribution to social programs at a rate of 5.0%, 6.0%, 8.0% and 9.0% for the years 2015, 2016, 2017 and 2018, respectively. Finally, this reform establishes an income tax deduction of 2.0% of value-added tax paid in the acquisition or import of hard assets, such as tangible and amortizable assets that are not sold or transferred in the ordinary course of business and that are used for the production of goods or services. Some of these rules were changed again through a new tax reform introduced at the end of 2016 and be effective in 2017, as described below.

On January 1, 2017, a new general tax reform became effective in Colombia. This reform modifies the income tax rate to 33.0%, starting with a 34.0% for 2017 and then 33.0% for the next years. In addition, this reform includes an extra income tax rate of 6.0% for 2017 and 4.0% for 2018, for entities located outside free trade zone. Regarding taxpayers located in free trade zone, the special income tax rate increase to 20% for 2017. In 2016 the rate is 15.0%. Additionally, the supplementary income tax (9.0 %) the temporary contribution to social programs (5.0 % to 9.0 % for 2015 to 2018), and the tax on net equity which were included in tax reform 2015 were eliminated. For 2017, the dividends received by individuals that are Colombian residents will be subject to a withholding of 35.0%; the dividends received by foreign individuals or entities non-residents in Colombia will be subject to a withholding of 5.0%. Finally, regarding the presumptive income on patrimony, the rate increased to a 3.5% for 2017 instead of 3.0% in 2016. Starting in 2017, the Colombian general rate of value-added tax (VAT) increased to 19.0%, replacing the 16.0% rate in effect till 2016.

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

**24.1 Income Tax**

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

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

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

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

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

|   | 2016          | 2015   | 2014   |
|---|---------------|--------|--------|
| Mexican statutory income tax rate   | <b>30%</b>    | 30.0%  | 30.0%  |
| Difference between book and tax inflationary values and translation effects | <b>(2.4%)</b> | (1.3%) | (3.1%) |
| Annual inflation tax adjustment   | <b>0.6%</b>   | (1.5%) | (4.4%) |
| Difference between statutory income tax rates                               | <b>1.2%</b>   | 0.4%   | 0.9%   |
| Non-deductible expenses   | <b>2.8%</b>   | 3.3%   | 3.7%   |
| Taxable (non-taxable) income, net   | <b>(0.4%)</b> | (0.3%) | (1.1%) |
| Change in the statutory Mexican tax rate                                    | <b>(0.1%)</b> | 0.1%   | 0.1%   |
| Hedge of a net investment in foreign operations                             | <b>(2.2%)</b> |        |        |
| Effect of changes in Venezuela Tax Law                                      | <b>3.6%</b>   |        |        |
| Income tax credits  | <b>(3.9%)</b> |        |        |
| Others  | <b>(1.6%)</b> | 0.8%   | 0.2%   |

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**Table of Contents****Deferred Income Tax Related to:**

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

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

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

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

**Deferred tax related to Other Comprehensive Income (OCI)**

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

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

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

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

**Tax Loss Carryforwards**

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

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

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

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

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

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

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

*24.2 Recoverable taxes*

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

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

**Note 25. Other Liabilities, Provisions, Contingencies and Commitments***25.1 Other current financial liabilities*

|  | <b>December 31,<br/>2016</b> | December 31,<br>2015 |
|--|------------------------------|----------------------|
| Sundry creditors                               | <b>Ps. 7,244</b>             | Ps. 4,336            |
| Derivative financial instruments (See Note 20) | <b>264</b>                   | 358                  |
| Others   | <b>75</b>                    | 15                   |
| Total  | <b>Ps. 7,583</b>             | Ps. 4,709            |

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

*25.2 Provisions and other long term liabilities*

|               | <b>December 31,<br/>2016</b> | December 31,<br>2015 |
|---------------|------------------------------|----------------------|
| Provisions    | <b>Ps. 16,428</b>            | Ps. 3,415            |
| Taxes payable | <b>508</b>                   | 458                  |
| Others        | <b>1,457</b>                 | 1,334                |
| Total         | <b>Ps. 18,393</b>            | Ps. 5,207            |

**Table of Contents***25.3 Other financial liabilities*

|  | <b>December 31,<br/>2016</b> | December 31,<br>2015 |
|--|------------------------------|----------------------|
| Derivative financial instruments (See Note 20) | <b>Ps. 6,403</b>             | Ps. 277              |
| Security deposits                              | <b>917</b>                   | 218                  |
| <b>Total</b>                                   | <b>Ps. 7,320</b>             | Ps. 495              |

*25.4 Provisions recorded in the consolidated statement of financial position*

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

|                | <b>December 31,<br/>2016</b> | December 31,<br>2015 |
|----------------|------------------------------|----------------------|
| Indirect taxes | <b>Ps. 11,065</b>            | Ps. 1,725            |
| Labor          | <b>2,578</b>                 | 1,372                |
| Legal          | <b>2,785</b>                 | 318                  |
| <b>Total</b>   | <b>Ps. 16,428</b>            | Ps. 3,415            |

*25.5 Changes in the balance of provisions recorded**25.5.1 Indirect taxes*

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

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

**Table of Contents***25.5.2 Labor*

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

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

*25.5.3 Legal*

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

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

*25.6 Unsettled lawsuits*

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

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

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position in these matters and final decision is pending in court. In addition, the Company has Ps. 6,531 in unsettled indirect tax contingencies regarding indemnification accorded with Heineken over FEMSA Cerveza. These matters are related to different Brazilian federal taxes which are pending final decision.

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

*25.7 Collateralized contingencies*

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

*25.8 Commitments*

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

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

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

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

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

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



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

**Note 26. Information by Segment**

The analytical information by segment is presented considering the Company's business units (as defined in Note 1) based on its products and services, which is consistent with the internal reporting presented to the Chief Operating Decision Maker. A segment is a component of the Company that engages in business activities from which it earns 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.

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

**a) By Business Unit:**

| 2016  | Coca-Cola<br>FEMSA | FEMSA<br>Comercio-<br>Retail<br>Division | FEMSA<br>Comercio-<br>Health<br>Division | FEMSA<br>Comercio-<br>Fuel<br>Division | CB<br>Equity | Other <sup>(1)</sup> | Consolidation<br>Adjustments | Consolidated |
|---|--------------------|--|--|--|--------------|----------------------|------------------------------|--------------|
| Total revenues  | Ps. 177,718        | Ps. 137,139                              | Ps. 43,411                               | Ps. 28,616                             | Ps.          | Ps. 29,491           | Ps. (16,868)                 | Ps. 399,507  |
| Intercompany<br>revenue   | 4,269              |  |  |  |              | 12,599               | (16,868)                     |              |
| Gross profit  | 79,662             | 50,990                                   | 12,738                                   | 2,248                                  |              | 6,114                | (3,548)                      | 148,204      |
| Administrative<br>expenses  |                    |  |  |  |              |                      |                              | 14,730       |
| Selling expenses  |                    |  |  |  |              |                      |                              | 95,547       |
| Other income  |                    |  |  |  |              |                      |                              | 1,157        |
| Other expenses  |                    |  |  |  |              |                      |                              | 5,909        |
| Interest expense  | 7,473              | 809                                      | 654                                      | 109                                    |              | 1,580                | (979)                        | 9,646        |
| Interest income   | 715                | 246                                      | 31                                       | 37                                     | 20           | 1,229                | (979)                        | 1,299        |
| Other net finance<br>expenses <sup>(3)</sup>  |                    |  |  |  |              |                      |                              | 3,728        |
| Income before<br>income taxes and<br>share of the profit of<br>associates and joint<br>ventures accounted<br>for using the equity<br>method | 14,308             | 11,046                                   | 914                                      | 182                                    | 9            | 2,218                | (121)                        | 28,556       |
| Income taxes  | 3,928              | 719                                      | 371                                      | 16                                     | 3            | 2,851                |                              | 7,888        |
| Share of the profit of<br>associates and joint<br>ventures accounted<br>for using the equity<br>method, net of taxes                        | 147                | 15                                       |  |  | 6,342        | 3                    |                              | 6,507        |
| Consolidated net<br>income  |                    |  |  |  |              |                      |                              | 27,175       |
| Depreciation and<br>amortization <sup>(2)</sup>   | 8,666              | 3,736                                    | 855                                      | 92                                     |              | 360                  |                              | 13,709       |

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|   |                |               |               |              |                |               |                 |                |
|---|----------------|---------------|---------------|--------------|----------------|---------------|-----------------|----------------|
| Non-cash items other than depreciation and amortization | <b>2,908</b>   | <b>288</b>    | <b>8</b>      | <b>17</b>    |                | <b>630</b>    |                 | <b>3,851</b>   |
| Investments in associates and joint ventures            | <b>22,357</b>  | <b>611</b>    |               |              | <b>105,229</b> | <b>404</b>    |                 | <b>128,601</b> |
| Total assets  | <b>279,256</b> | <b>59,740</b> | <b>35,862</b> | <b>3,649</b> | <b>108,976</b> | <b>90,429</b> | <b>(32,289)</b> | <b>545,623</b> |
| Total liabilities                                       | <b>150,023</b> | <b>42,211</b> | <b>24,368</b> | <b>3,132</b> | <b>7,132</b>   | <b>64,876</b> | <b>(32,289)</b> | <b>259,453</b> |
| Investments in fixed assets <sup>(4)</sup>              | <b>12,391</b>  | <b>7,632</b>  | <b>474</b>    | <b>299</b>   |                | <b>1,671</b>  | <b>(312)</b>    | <b>22,155</b>  |

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

(2) Includes bottle breakage.

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

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

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| 2015   | Coca-Cola<br>FEMSA | FEMSA<br>Comercio-<br>Retail<br>Division | FEMSA<br>Comercio-<br>Health<br>Division | FEMSA<br>Comercio-<br>Fuel<br>Division | CB<br>Equity | Other <sup>(1)</sup> | Consolidation<br>Adjustments | Consolidated |
|--|--------------------|--|--|--|--------------|----------------------|------------------------------|--------------|
| Total revenues   | Ps. 152,360        | Ps. 119,884                              | Ps. 13,053                               | Ps. 18,510                             | Ps.          | Ps. 22,774           | Ps. (14,992)                 | Ps. 311,589  |
| Intercompany revenue   | 3,794              | 46                                       |  |  |              | 11,152               | (14,992)                     |              |
| Gross profit   | 72,030             | 43,649                                   | 3,688                                    | 1,420                                  |              | 5,334                | (2,942)                      | 123,179      |
| Administrative expenses  |                    |  |  |  |              |                      |                              | 11,705       |
| Selling expenses   |                    |  |  |  |              |                      |                              | 76,375       |
| Other income   |                    |  |  |  |              |                      |                              | 423          |
| Other expenses   |                    |  |  |  |              |                      |                              | (2,741)      |
| Interest expense   | (6,337)            | (612)                                    | (148)                                    | (78)                                   |              | (1,269)              | 667                          | (7,777)      |
| Interest income  | 414                | 149                                      | 8  | 35                                     | 18           | 1,067                | (667)                        | 1,024        |
| Other net finance<br>expenses <sup>(3)</sup>   |                    |  |  |  |              |                      |                              | (865)        |
| Income before income<br>taxes and share of the<br>profit of associates and<br>joint ventures accounted<br>for using the equity<br>method | 14,725             | 9,714                                    | 416                                      | 164                                    | 8            | 208                  | (72)                         | 25,163       |
| Income taxes   | 4,551              | 859                                      | 97                                       | 28                                     | 2            | 2,395                |                              | 7,932        |
| Share of the profit of<br>associates and joint<br>ventures accounted for<br>using the equity method,<br>net of taxes                     | 155                | (10)                                     |  |  | 5,879        | 21                   |                              | 6,045        |
| Consolidated net income  |                    |  |  |  |              |                      |                              | 23,276       |
| Depreciation and<br>amortization <sup>(2)</sup>  | 7,144              | 3,132                                    | 204                                      | 63                                     |              | 282                  |                              | 10,825       |
| Non-cash items other than<br>depreciation and<br>amortization  | 1,443              | 296                                      | (16)                                     | 17                                     |              | 326                  |                              | 2,066        |
| Investments in associates<br>and joint ventures  | 17,873             | 744                                      |  | 19                                     | 92,694       | 401                  |                              | 111,731      |
| Total assets   | 210,249            | 44,677                                   | 22,534                                   | 3,230                                  | 95,502       | 49,213               | (16,073)                     | 409,332      |
| Total liabilities  | 101,514            | 30,661                                   | 14,122                                   | 2,752                                  | 4,202        | 30,298               | (16,073)                     | 167,476      |
| Investments in fixed<br>assets <sup>(4)</sup>  | 11,484             | 5,625                                    | 423                                      | 228                                    |              | 1,448                | (323)                        | 18,885       |

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

(2) Includes bottle breakage.

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

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

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

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

(2) Includes bottle breakage.

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

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

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

**b) By Geographic Area:**

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

Geographic disclosure for the Company is as follow:

|   | Total<br>Revenues | Total Non<br>Current<br>Assets |
|---|-------------------|--------------------------------|
| <b>2016</b>                                   |                   |                                |
| Mexico and Central America <sup>(1) (2)</sup> | Ps. 267,732       | Ps. 176,613                    |
| South America <sup>(3)</sup>                  | 113,937           | 138,549                        |
| Venezuela                                     | 18,937            | 7,281                          |
| Europe  |                   | 105,229                        |
| Consolidation adjustments                     | (1,099)           |                                |
| Consolidated                                  | Ps. 399,507       | Ps. 427,672                    |
|   |                   |                                |
|   | Total<br>Revenues | Total Non<br>Current<br>Assets |
| <b>2015</b>                                   |                   |                                |
| Mexico and Central America <sup>(1) (2)</sup> | Ps. 228,563       | Ps. 158,506                    |
| South America <sup>(3)</sup>                  | 74,928            | 67,568                         |
| Venezuela                                     | 8,904             | 3,841                          |
| Europe  |                   | 92,694                         |
| Consolidation adjustments                     | (806)             |                                |
| Consolidated                                  | Ps. 311,589       | Ps. 322,609                    |
|   |                   |                                |
|   | Total<br>Revenues | Total<br>Revenues              |
| <b>2014</b>                                   |                   |                                |
| Mexico and Central America <sup>(1) (2)</sup> |                   | Ps. 186,736                    |
| South America <sup>(3)</sup>                  |                   | 69,172                         |
| Venezuela                                     |                   | 8,835                          |
| Europe  |                   |                                |
| Consolidation adjustments                     |                   | (1,294)                        |
| Consolidated                                  |                   | Ps. 263,449                    |

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

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- (2) Coca-Cola FEMSA's Asian division consists of the 51% equity investment in CCFPI (Philippines) which was acquired in 2013, and is accounted for using the equity method of accounting (see Note 10). The equity in earnings of the Asian division were Ps. 93, Ps. 86 and Ps. (334) in 2016, 2015 and 2014, respectively as is the equity method investment in CCFPI was Ps. 11,460, Ps. 9,996 and Ps. 9,021 this is presented as part of the Company's corporate operations in 2016, 2015 and 2014, respectively and thus disclosed net in the table above as part of the Total Non Current assets in the Mexico & Central America division. However, the Asian division is represented by the following investee level amounts, prior to reflection of the Company's 51% equity interest as of and for the years ended December 2016, 2015 and 2014, respectively: revenues Ps. 22,768, Ps. 19,576 and Ps. 16,548, gross profit Ps. 7,678, Ps. 5,325 and Ps. 4,913, income before income taxes Ps. 486, Ps. 334 and Ps. 664, depreciation and amortization Ps. 2,163, Ps. 2,369 and Ps. 643, total assets Ps. 28,066, Ps. 22,002 and Ps. 19,877, total liabilities Ps. 9,634, Ps. 6,493 and Ps. 6,614, capital expenditures Ps. 3,342, Ps. 1,778 and Ps. 2,215.
- (3) South America includes Brazil, Argentina, Colombia, Chile and Venezuela, although Venezuela is shown separately above. South America revenues include Brazilian revenues of Ps. 48,924, Ps. 39,749 and Ps. 45,799 during the years ended December 31, 2016, 2015 and 2014, respectively. Brazilian non-current assets were Ps. 97,127 and Ps. 44,851, as of December 31, 2016 and December 31, 2015, respectively. South America revenues include Colombia revenues of Ps. 17,027, Ps. 14,283 and Ps. 14,207 during the years ended December 31, 2016, 2015 and 2014, respectively. Colombia non-current assets were Ps. 18,835 and Ps. 12,755, as of December 31, 2016 and December 31, 2015, respectively. South America revenues include Argentina revenues of Ps. 12,340, Ps. 14,004 and Ps. 9,714 during the years ended December 31, 2016, 2015 and 2014, respectively. Argentina non-current assets were Ps. 3,159 and Ps. 2,861, as of December 31, 2016 and December 31, 2015, respectively. South America revenues include Chile revenues of Ps. 36,631 and Ps. 7,586 during the year ended December 31, 2016 and 2015, respectively. Chile non-current assets were Ps. 19,367 and Ps. 7,031, as of December 31, 2016 and 2015, respectively.

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

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

**IFRS 15, Revenue from Contracts with Customers**

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

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

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

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

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

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

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

## ***IFRS 9, Financial Instruments***

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

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



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**Table of Contents****IFRS 16, Leases**

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

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

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

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

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

**Amendments to IAS 7, Disclosure Initiative**

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

Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. The new disclosure requirements also relate to changes in financial assets if they meet the same definition.

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These amendments are effective for annual periods beginning on or after January 1, 2017 with earlier application permitted, and entities need not provide comparative information when they first apply them. The Company is in the process of assessing the potential impacts from the adoption of these amendments in its financial statements.

### **Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealized Losses**

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Company.

### **Note 28. Subsequent Events**

In January 25, 2013, Coca-Cola FEMSA acquired a 51.0% non-controlling majority stake in CCFPI from The Coca-Cola Company. As mentioned in note 20.7, Coca-Cola FEMSA has a call option to acquire the remaining 49.0% stake in CCFPI at any time during the seven years following the closing date. Coca-Cola FEMSA also has a put option to sell its ownership in CCFPI to The Coca-Cola Company commencing on the fifth anniversary of the closing date and ending on the sixth anniversary of the closing date. Pursuant to the Company's shareholders agreement with The Coca-Cola Company, during a four-year period that ended on January 25, 2017, all decisions relating to CCFPI were approved jointly with The Coca-Cola Company.

Since January 25, 2017, Coca-Cola FEMSA controls CCFPI's as all decisions relating to the day-to-day operation and management of CCFPI's business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company. The Coca-Cola Company has the right to appoint (and may remove) CCFPI's Chief Financial Officer. Coca-Cola FEMSA has the right to appoint (and may remove) the Chief Executive Officer and all other officers of CCFPI. Commencing on February 1, 2017, Coca-Cola FEMSA started consolidating CCFPI's financial results in the financial statements. The Coca-Cola FEMSA's results for the first quarter of 2017 and its future results in 2017 will reflect a reduction in the share of the profit of associates and joint ventures accounted for using the equity method, net of tax, as a result of this consolidation.

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Coca-Cola FEMSA's estimate of fair value of CCFPI net assets acquired to the date of acquisition (February 2017) is as follows:

|  |                  |
|--|------------------|
| Total current assets   | <b>Ps. 9,372</b> |
| Total non-current assets   | <b>18,371</b>    |
| Distribution rights  | <b>4,026</b>     |
| Total assets   | <b>31,769</b>    |
| Total liabilities  | <b>(9,814)</b>   |
| Net assets acquired  | <b>21,955</b>    |
| Acquisition date fair value of the equity interest in the acquire (in substitution to nil or zero consideration) | <b>21,482</b>    |
| Non-controlling interest   | <b>(10,758)</b>  |
| Net assets acquired attributable to the parent company   | <b>11,197</b>    |
| Goodwill   |                  |
| Carrying value of CCFPI investment derecognized  | <b>11,460</b>    |
| Loss as a result of remeasuring to fair value the equity interest  | <b>263</b>       |
| Gain on derecognition of other comprehensive income  | <b>2,783</b>     |
| Total net effect in profit or loss   | <b>Ps. 2,520</b> |

On January 2017, FEMSA Comercio through its subsidiary Cadena Comercial USA Corporation, LLC., completed the acquisition of an additional 20% stake in Specialty's Cafe & Bakery, reaching 100% of shareholding.

On February 13, 2017, Heineken announced that it had reached an agreement to acquire Brasil Kirin Holding S.A, for a consideration of \$ 664. The transaction is expected to close in the first half of 2017. The Company will recognize results of operation of this business combination through the recognition of the equity method in Heineken, once it has been incorporated in the consolidation of Heineken.

On February 24, 2017, the Company's Board of Directors agreed to propose the payment of a cash ordinary dividend in the amount of Ps. 8,636 to be paid in two equal installments as of May 5, 2017 and November 3, 2017. This ordinary dividend was approved by the Annual Shareholders meeting on March 16, 2017.

On March 28, 2017, Coca-Cola FEMSA mainly acquired distribution rights of soy-based beverages to produce and distribute AdeS trademark products through its territories in Mexico, Brazil, Colombia and Argentina.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Executive and Supervisory Board of Heineken N.V.**

We have audited the accompanying consolidated statement of financial position of Heineken N.V. and its subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated income statement, consolidated statements of comprehensive income, cash flows and changes in equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of the Company for the year ended December 31, 2014, before the effects of the adjustments to retrospectively apply the change in composition of operating segments discussed in Note 5 to the consolidated financial statements and the change in presentation of cash pooling arrangements with legally enforceable rights to offset presented in Note 5 to the consolidated financial statements, were audited by other auditors whose report, dated February 10, 2015, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such 2016 and 2015 consolidated financial statements present fairly, in all material respects, the financial position of Heineken N.V. and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited the adjustments to the 2014 consolidated financial statements to retrospectively apply the change in composition of operating segments, as discussed in Note 5 to the consolidated financial statements. Our procedures included (1) comparing the adjusted amounts of segment revenue, profit, and assets to the Company's underlying analysis and (2) testing the mathematical accuracy of the reconciliation of segment amounts to the consolidated financial statements. We have also audited the adjustments to the 2014 consolidated financial statements to retrospectively apply the change in presentation of cash pooling arrangements with legally enforceable rights to offset, as presented in Note 5 to the consolidated financial statements. Our procedures included (1) comparing the adjusted amounts of current segment assets and segment liabilities included in Note 5 to the consolidated financial statements to the Company's underlying analysis and (2) testing the adjusted amounts of cash and cash equivalents and bank overdrafts and commercial papers included within current segment assets and segment liabilities for appropriate classification. In our opinion, such retrospective adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2014 consolidated financial statements of the Company other than with respect to the retrospective adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 consolidated financial statements taken as a whole.

/s/ Deloitte Accountants B.V.

**Amsterdam, the Netherlands**

**February 14, 2017**

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**Report of Independent Registered Public Accounting Firm**

To: The Executive and Supervisory Board of Heineken N.V.

We have audited, before the effects of the adjustments to retrospectively apply the changes in operating segments as described in note 5, the consolidated statements of income, comprehensive income, cash flows, and changes in equity of Heineken N.V. and subsidiaries for the year ended December 31, 2014. The 2014 consolidated financial statements before the effects of the adjustments discussed in note 5 are not presented herein. The 2014 consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2014 consolidated financial statements referred to above, before the effects of the adjustments to retrospectively apply the changes in operating segments as described in note 5, present fairly, in all material respects, the results of operations and cash flows of Heineken N.V. and subsidiaries for the year ended December 31, 2014, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively apply the changes in operating segments as described in note 5 and, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by a successor auditor.

/s/ KPMG Accountants N.V.

Amsterdam, the Netherlands

February 10, 2015

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**Table of Contents****Financial statements****Consolidated Income Statement**

|  | Note | 2016            | 2015        | 2014        |
|--|------|-----------------|-------------|-------------|
| For the year ended 31 December   |      |                 |             |             |
| In millions of EUR   |      |                 |             |             |
| Revenue  | 5    | <b>20,792</b>   | 20,511      | 19,257      |
| Other income   | 8    | <b>46</b>       | 411         | 93          |
| Raw materials, consumables and services  | 9    | (13,003)        | (12,931)    | (12,053)    |
| Personnel expenses   | 10   | (3,263)         | (3,322)     | (3,080)     |
| Amortisation, depreciation and impairments   | 11   | (1,817)         | (1,594)     | (1,437)     |
| Total expenses   |      | <b>(18,083)</b> | (17,847)    | (16,570)    |
| Results from operating activities  |      | <b>2,755</b>    | 3,075       | 2,780       |
| Interest income  | 12   | 60              | 60          | 48          |
| Interest expenses  | 12   | (419)           | (412)       | (457)       |
| Other net finance income/(expenses)  | 12   | (134)           | (57)        | (79)        |
| Net finance expenses   |      | <b>(493)</b>    | (409)       | (488)       |
| Share of profit of associates and joint ventures and impairments thereof (net of income tax) | 16   | 150             | 172         | 148         |
| Profit before income tax   |      | <b>2,412</b>    | 2,838       | 2,440       |
| Income tax expense   | 13   | (673)           | (697)       | (732)       |
| Profit   |      | <b>1,739</b>    | 2,141       | 1,708       |
| Attributable to:   |      |                 |             |             |
| Equity holders of the Company (net profit)   |      | 1,540           | 1,892       | 1,516       |
| Non-controlling interests  |      | 199             | 249         | 192         |
| Profit   |      | <b>1,739</b>    | 2,141       | 1,708       |
| Weighted average number of shares basic  | 23   | 569,737,210     | 572,292,454 | 574,945,645 |
| Weighted average number of shares diluted  | 23   | 570,370,392     | 572,944,188 | 576,002,613 |
| Basic earnings per share (EUR)   | 23   | 2.70            | 3.31        | 2.64        |
| Diluted earnings per share (EUR)   | 23   | 2.70            | 3.30        | 2.63        |

**Table of Contents****Financial statements***Consolidated Statement of Comprehensive Income*

|   | Note | 2016         | 2015  | 2014  |
|---|------|--------------|-------|-------|
| For the year ended 31 December  |      |              |       |       |
| In millions of EUR  |      |              |       |       |
| Profit  |      | <b>1,739</b> | 2,141 | 1,708 |
| Other comprehensive income:   |      |              |       |       |
| Items that will not be reclassified to profit or loss:                      |      |              |       |       |
| Actuarial gains and losses  | 24   | (252)        | 95    | (344) |
| Items that may be subsequently reclassified to profit or loss:              |      |              |       |       |
| Currency translation differences  | 24   | (908)        | (43)  | 697   |
| Recycling of currency translation differences to profit or loss             | 24   |              | 129   |       |
| Effective portion of net investment hedges                                  | 24   | 44           | 15    | (5)   |
| Effective portion of changes in fair value of cash flow hedges              | 24   | 6            | 23    | (99)  |
| Effective portion of cash flow hedges transferred to profit or loss         | 24   | 41           | 24    | (3)   |
| Net change in fair value available-for-sale investments                     | 24   | 140          | 43    | (1)   |
| Recycling of fair value of available-for-sale investments to profit or loss | 24   |              | (16)  |       |
| Share of other comprehensive income of associates/joint ventures            | 24   |              | 7     | (7)   |
| Other comprehensive income, net of tax                                      | 24   | <b>(929)</b> | 277   | 238   |
| Total comprehensive income  |      | <b>810</b>   | 2,418 | 1,946 |
| Attributable to:  |      |              |       |       |
| Equity holders of the Company   |      | 660          | 2,150 | 1,686 |
| Non-controlling interests   |      | 150          | 268   | 260   |
| Total comprehensive income  |      | <b>810</b>   | 2,418 | 1,946 |

**Table of Contents****Financial statements****Consolidated Statement of Financial Position**

|  | Note | 2016          | 2015*  |
|--|------|---------------|--------|
| As at 31 December                                    |      |               |        |
| In millions of EUR                                   |      |               |        |
| <b>Assets</b>  |      |               |        |
| Property, plant and equipment                        | 14   | 9,232         | 9,552  |
| Intangible assets                                    | 15   | 17,424        | 18,183 |
| Investments in associates and joint ventures         | 16   | 2,166         | 1,985  |
| Other investments and receivables                    | 17   | 1,077         | 856    |
| Advances to customers                                |      | 274           | 266    |
| Deferred tax assets                                  | 18   | 1,011         | 958    |
| Total non-current assets                             |      | <b>31,184</b> | 31,800 |
| Inventories  | 19   | 1,618         | 1,702  |
| Other investments                                    | 17   |               | 16     |
| Trade and other receivables                          | 20   | 3,052         | 2,873  |
| Prepayments  |      | 328           | 343    |
| Income tax receivables                               |      | 47            | 33     |
| Cash and cash equivalents                            | 21   | 3,035         | 3,232  |
| Assets classified as held for sale                   | 7    | 57            | 123    |
| Total current assets                                 |      | <b>8,137</b>  | 8,322  |
| Total assets   |      | <b>39,321</b> | 40,122 |
| <b>Equity</b>  |      |               |        |
| Share capital  | 22   | 922           | 922    |
| Share premium  | 22   | 2,701         | 2,701  |
| Reserves   |      | (1,173)       | (655)  |
| Retained earnings                                    |      | 10,788        | 10,567 |
| Equity attributable to equity holders of the Company |      | <b>13,238</b> | 13,535 |
| Non-controlling interests                            | 22   | 1,335         | 1,535  |
| Total equity   |      | <b>14,573</b> | 15,070 |
| <b>Liabilities</b>                                   |      |               |        |
| Loans and borrowings                                 | 25   | 10,954        | 10,658 |
| Tax liabilities                                      |      | 3             | 3      |
| Employee benefits                                    | 26   | 1,420         | 1,289  |
| Provisions   | 28   | 302           | 320    |
| Deferred tax liabilities                             | 18   | 1,672         | 1,858  |
| Total non-current liabilities                        |      | <b>14,351</b> | 14,128 |
| Bank overdrafts and commercial papers                | 21   | 1,669         | 2,950  |
| Loans and borrowings                                 | 25   | 1,981         | 1,397  |
| Trade and other payables                             | 29   | 6,224         | 6,013  |
| Tax liabilities                                      |      | 352           | 379    |
| Provisions   | 28   | 154           | 154    |
| Liabilities classified as held for sale              | 7    | 17            | 31     |
| Total current liabilities                            |      | <b>10,397</b> | 10,924 |
| Total liabilities                                    |      | <b>24,748</b> | 25,052 |
| Total equity and liabilities                         |      | <b>39,321</b> | 40,122 |

\* Revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset. Refer to note 2(e) changes in accounting policies and note 21 Cash and cash equivalents for further details.





**Table of Contents****Financial statements****Consolidated Statement of Cash Flows**

|   | Note | 2016           | 2015    | 2014    |
|---|------|----------------|---------|---------|
| For the year ended 31 December  |      |                |         |         |
| In millions of EUR  |      |                |         |         |
| <b>Operating activities</b>   |      |                |         |         |
| Profit  |      | <b>1,739</b>   | 2,141   | 1,708   |
| Adjustments for:  |      |                |         |         |
| Amortisation, depreciation and impairments  | 11   | 1,817          | 1,594   | 1,437   |
| Net interest expenses   | 12   | 359            | 352     | 409     |
| Gain on sale of property, plant and equipment, intangible assets and subsidiaries, joint ventures and associates  | 8    | (46)           | (411)   | (93)    |
| Investment income and share of profit and impairments of associates and joint ventures and dividend income on available-for-sale and held-for-trading investments |      | (161)          | (182)   | (158)   |
| Income tax expenses   | 13   | 673            | 697     | 732     |
| Other non-cash items  |      | 332            | 89      | 244     |
| Cash flow from operations before changes in working capital and provisions  |      | <b>4,713</b>   | 4,280   | 4,279   |
| Change in inventories   |      | (20)           | 27      | (104)   |
| Change in trade and other receivables   |      | (228)          | (59)    | (325)   |
| Change in trade and other payables  |      | 328            | 403     | 456     |
| Total change in working capital   |      | <b>80</b>      | 371     | 27      |
| Change in provisions and employee benefits  |      | (73)           | (165)   | (166)   |
| Cash flow from operations   |      | <b>4,720</b>   | 4,486   | 4,140   |
| Interest paid   |      | (441)          | (446)   | (522)   |
| Interest received   |      | 70             | 87      | 60      |
| Dividends received  |      | 118            | 159     | 125     |
| Income taxes paid   |      | (749)          | (797)   | (745)   |
| Cash flow related to interest, dividend and income tax  |      | <b>(1,002)</b> | (997)   | (1,082) |
| Cash flow from operating activities   |      | <b>3,718</b>   | 3,489   | 3,058   |
| <b>Investing activities</b>   |      |                |         |         |
| Proceeds from sale of property, plant and equipment and intangible assets   |      | 116            | 83      | 144     |
| Purchase of property, plant and equipment   |      | (1,757)        | (1,638) | (1,494) |
| Purchase of intangible assets   |      | (109)          | (92)    | (57)    |
| Loans issued to customers and other investments   |      | (219)          | (195)   | (117)   |
| Repayment on loans to customers   |      | 24             | 45      | 40      |
| Acquisition of subsidiaries, net of cash acquired   |      | (9)            | (757)   | (159)   |
| Acquisition of/additions to associates, joint ventures and other investments  |      | (68)           | (543)   | (7)     |
| Disposal of subsidiaries, net of cash disposed of   | 6/7  | 15             | 979     | (27)    |
| Disposal of associates, joint ventures and other investments  |      |                | 54      | 4       |
| Cash flow (used in)/from investing activities   |      | <b>(2,007)</b> | (2,064) | (1,673) |
| <b>Financing activities</b>   |      |                |         |         |
| Proceeds from loans and borrowings  |      | 1,670          | 1,888   | 858     |
| Repayment of loans and borrowings   |      | (1,001)        | (1,753) | (2,443) |
| Dividends paid  |      | (1,031)        | (909)   | (723)   |
| Purchase own shares and shares issued   |      | (31)           | (377)   | (9)     |
| Acquisition of non-controlling interests  | 6    | (294)          | (21)    | (137)   |
| Other   |      | 15             | (1)     | 1       |
| Cash flow (used in)/from financing activities   |      | <b>(672)</b>   | (1,173) | (2,453) |
| Net cash flow   |      | <b>1,039</b>   | 252     | (1,068) |
| Cash and cash equivalents as at 1 January   |      | 282            | 73      | 1,112   |

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|   |    |              |      |    |
|---|----|--------------|------|----|
| Effect of movements in exchange rates       |    | 45           | (43) | 29 |
| Cash and cash equivalents as at 31 December | 21 | <b>1,366</b> | 282  | 73 |

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**Table of Contents****Financial statements***Consolidated Statement of Changes in Equity*

| In millions of EUR   | Note | Share capital | Share premium | Translation reserve | Hedging reserve | Fair value reserve | Other legal reserves | Reserve for own shares | Retained earnings | Equity attributable to equity holders of the Company | Non-controlling interests | Total equity |
|--|------|---------------|---------------|---------------------|-----------------|--------------------|----------------------|------------------------|-------------------|--|---------------------------|--------------|
| Balance as at January 1, 2014  |      | 922           | 2,701         | (1,721)             | 2               | 97                 | 805                  | (41)                   | 8,637             | 11,402   | 954                       | 12,356       |
| Profit   |      |               |               |                     |                 |                    | 174                  |                        | 1,342             | 1,516  | 192                       | 1,708        |
| Other comprehensive income   | 24   |               |               | 624                 | (101)           | (1)                |                      |                        | (352)             | 170  | 68                        | 238          |
| Total comprehensive income   |      |               |               | 624                 | (101)           | (1)                | 174                  |                        | 990               | 1,686  | 260                       | 1,946        |
| Transfer to retained earnings  |      |               |               |                     |                 |                    | (236)                |                        | 236               |  |                           |              |
| Dividends to shareholders  |      |               |               |                     |                 |                    |                      |                        | (512)             | (512)  | (224)                     | (736)        |
| Purchase/reissuance<br>own/non-controlling shares                          |      |               |               |                     |                 |                    |                      | (33)                   |                   | (33)   | 32                        | (1)          |
| Own shares delivered   |      |               |               |                     |                 |                    |                      | 4                      | (4)               |  |                           |              |
| Share-based payments   |      |               |               |                     |                 |                    |                      |                        | 47                | 47   | 1                         | 48           |
| Acquisition of non-controlling<br>interests without a change in<br>control |      |               |               |                     |                 |                    |                      |                        | (181)             | (181)  | 20                        | (161)        |
| Balance as at December 31, 2014  |      | 922           | 2,701         | (1,097)             | (99)            | 96                 | 743                  | (70)                   | 9,213             | 12,409   | 1,043                     | 13,452       |

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**Table of Contents****Financial statements***Consolidated Statement of Changes in Equity continued*

| In millions of EUR   | Note | Equity attributable |               |                     |                 |                    |                      |                        |                   |                        |                           | Total equity |
|--|------|---------------------|---------------|---------------------|-----------------|--------------------|----------------------|------------------------|-------------------|------------------------|---------------------------|--------------|
|  |      | Share capital       | Share premium | Translation reserve | Hedging reserve | Fair value reserve | Other legal reserves | Reserve for own shares | Retained earnings | holders of the Company | Non-controlling interests |              |
| Balance as at 1 January 2015   |      | 922                 | 2,701         | (1,097)             | (99)            | 96                 | 743                  | (70)                   | 9,213             | 12,409                 | 1,043                     | 13,452       |
| Profit   |      |                     |               |                     |                 |                    | 186                  |                        | 1,706             | 1,892                  | 249                       | 2,141        |
| Other comprehensive income   | 24   |                     |               | 80                  | 52              | 26                 |                      |                        | 100               | 258                    | 19                        | 277          |
| Total comprehensive income   |      |                     |               | 80                  | 52              | 26                 | 186                  |                        | 1,806             | 2,150                  | 268                       | 2,418        |
| Transfer to retained earnings  |      |                     |               |                     |                 |                    | (210)                |                        | 210               |                        |                           |              |
| Dividends to shareholders  |      |                     |               |                     |                 |                    |                      |                        | (676)             | (676)                  | (248)                     | (924)        |
| Purchase/reissuance  |      |                     |               |                     |                 |                    |                      |                        |                   |                        |                           |              |
| own/non-controlling shares   | 22   |                     |               |                     |                 |                    |                      | (384)                  |                   | (384)                  | 10                        | (374)        |
| Own shares delivered   |      |                     |               |                     |                 |                    |                      | 22                     | (22)              |                        |                           |              |
| Share-based payments   |      |                     |               |                     |                 |                    |                      |                        | 32                | 32                     |                           | 32           |
| Acquisition of non-controlling interests without a change in control |      |                     |               |                     |                 |                    |                      |                        | 4                 | 4                      | (2)                       | 2            |
| Changes in consolidation   |      |                     |               |                     |                 |                    |                      |                        |                   |                        | 464                       | 464          |
| Balance as at 31 December 2015                                       |      | 922                 | 2,701         | (1,017)             | (47)            | 122                | 719                  | (432)                  | 10,567            | 13,535                 | 1,535                     | 15,070       |

**Table of Contents****Financial statements***Consolidated Statement of Changes in Equity continued*

| In millions of EUR   | Note | Share capital | Share premium | Translation reserve | Hedging reserve | Fair value reserve | Other legal reserves | Reserve for own shares | Retained earnings | Equity attributable to equity holders of the Company | Non-controlling interests | Total equity |
|--|------|---------------|---------------|---------------------|-----------------|--------------------|----------------------|------------------------|-------------------|--|---------------------------|--------------|
| Balance as at 1 January 2016   |      | 922           | 2,701         | (1,017)             | (47)            | 122                | 719                  | (432)                  | 10,567            | 13,535   | 1,535                     | 15,070       |
| Profit   |      |               |               |                     |                 |                    | 153                  |                        | 1,387             | 1,540  | 199                       | 1,739        |
| Other comprehensive income   | 24   |               |               | (812)               | 46              | 140                |                      |                        | (254)             | (880)  | (49)                      | (929)        |
| Total comprehensive income   |      |               |               | (812)               | 46              | 140                | 153                  |                        | 1,133             | 660  | 150                       | 810          |
| Transfer to/(from) retained earnings                                 |      |               |               |                     |                 |                    | (34)                 |                        | 34                |  |                           |              |
| Dividends to shareholders  |      |               |               |                     |                 |                    |                      |                        | (786)             | (786)  | (261)                     | (1,047)      |
| Purchase/reissuance own/non-controlling shares                       | 22   |               |               |                     |                 |                    |                      | (39)                   |                   | (39)   | 8                         | (31)         |
| Own shares delivered   |      |               |               |                     |                 |                    |                      | 28                     | (28)              |  |                           |              |
| Share-based payments   |      |               |               |                     |                 |                    |                      |                        | 13                | 13   |                           | 13           |
| Acquisition of non-controlling interests without a change in control | 6    |               |               |                     |                 |                    |                      |                        | (145)             | (145)  | (144)                     | (289)        |
| Changes in consolidation   |      |               |               |                     |                 |                    |                      |                        |                   |  | 47                        | 47           |
| Balance as at 31 December 2016                                       |      | 922           | 2,701         | (1,829)             | (1)             | 262                | 838                  | (443)                  | 10,788            | 13,238   | 1,335                     | 14,573       |

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### **Notes to the Consolidated Financial Statements**

#### **1. Reporting entity**

Heineken N.V. (the Company) is a company domiciled in the Netherlands. The address of the Company's registered office is Tweede Weteringplantsoen 21, Amsterdam. The consolidated financial statements of the Company as at and for the year ended 31 December 2016 comprise the Company, its subsidiaries (together referred to as HEINEKEN and individually as HEINEKEN entities) and HEINEKEN's interest in jointly controlled entities and associates. The Company is registered in the Trade Register of Amsterdam No. 33011433. HEINEKEN is primarily involved in the brewing and selling of beer.

#### **2. Basis of preparation**

##### **(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. All standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) effective year-end 2016 have been adopted by the EU. Consequently, the accounting policies applied by the Company also comply fully with IFRS as issued by the IASB.

The consolidated financial statements have been prepared by the Executive Board of the Company and authorised for issue on 14 February 2017 and will be submitted for adoption to the Annual General Meeting of Shareholders on 20 April 2017.

##### **(b) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis unless otherwise indicated.

The methods used to measure fair values are discussed further in notes 3 and 4.

##### **(c) Functional and presentation currency**

These consolidated financial statements are presented in Euro, which is the Company's functional currency. All financial information presented in Euro has been rounded to the nearest million unless stated otherwise.

##### **(d) Use of estimates and judgements**

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about assumptions and estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in the following notes:

Note 6 Acquisitions and disposals of subsidiaries and non-controlling interests

Note 15 Intangible assets

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Note 16 Investments in associates and joint ventures

Note 17 Other investments and receivables

Note 18 Deferred tax assets and liabilities

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Note 26 Employee benefits

Note 28 Provisions

Note 29 Trade and other payables

Note 30 Financial risk management and financial instruments

Note 32 Contingencies

**(e) Changes in accounting policies**

***(i) Netting cash pooling arrangements with legally enforceable rights to offset***

HEINEKEN previously presented the cash and overdraft balances within cash pooling arrangements on a net basis in the statement of financial position, based on the legally enforceable right to offset and the intention to settle on a net basis. In March 2016 the IFRS Interpretations Committee (IFRIC) decided on when and whether entities are able to offset balances in accordance with IAS 32. HEINEKEN has revised its accounting policy accordingly, by applying the stricter IFRIC interpretation on the intention to settle on a net basis.

This change in accounting policy has been accounted for retrospectively and as a result of this, the amount of Cash and cash equivalents and Bank overdrafts and commercial papers increased by EUR2,408 million as per 31 December 2015. Legal offset rights for the cash pooling arrangements continue to be in place. The amount subject to legal offset rights, but not netted in the statement of financial position is EUR1,489 million per 31 December 2016. If netted, Cash and cash equivalents would amount to EUR1,546 million and Bank overdrafts and commercial papers to EUR180 million. Refer to note 21 for further details. The Net interest-bearing debt position remains unchanged.

***(ii) Other changes***

HEINEKEN has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016:

Disclosure Initiative (amendments to IAS 1)

Regulatory Deferral Accounts (IFRS 14)

Accounting for Acquisitions of Interests in Joint Operations (amendments to IFRS 11)

Bearer Plants (amendments to IAS 16 and IAS 41)

Classification of Acceptable Methods of Depreciation and Amortisation (amendments to IAS 16 and IAS 38)

Applying the consolidation exemption (amendment to IFRS 10, IFRS 12 and IAS 28)

Equity method in separate financial statements (amendments to IAS 27)

Annual Improvements to IFRS s 2012-2014 Cycle

These changes had no significant impact on the disclosures or amounts recognised in HEINEKEN s consolidated financial statements.

### **3. Significant accounting policies**

#### **General**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by HEINEKEN entities.

#### **(a) Basis of consolidation**

##### **(i) Business combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to HEINEKEN. HEINEKEN controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

HEINEKEN measures goodwill at the acquisition date as the fair value of the consideration transferred plus the fair value of any previously held equity interest in the acquiree and the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

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The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that HEINEKEN incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised 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 recognised in profit or loss.

### ***(ii) 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 recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

### ***(iii) Subsidiaries***

Subsidiaries are entities controlled by HEINEKEN. HEINEKEN controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by HEINEKEN.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

### ***(iv) Loss of control***

Upon the loss of control, HEINEKEN derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any resulting gain or loss is recognised in profit or loss. If HEINEKEN retains any interest in the previous subsidiary, such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset, depending on the level of influence retained.

### ***(v) Interests in equity-accounted investees***

HEINEKEN's investments in associates and joint ventures are accounted for using the equity method of accounting. Investments in associates are those entities in which HEINEKEN has significant influence, but no control or joint control, over the financial and operating policies. Joint ventures are the arrangements in which HEINEKEN has joint control, whereby HEINEKEN has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures are recognised initially at cost. The cost of the investment includes transaction costs.

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

When HEINEKEN's share of losses exceeds the carrying amount of the associate or joint venture, including any long-term investments, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that HEINEKEN has an obligation or has made a payment on behalf of the associate or joint venture.

***(vi) Transactions eliminated on consolidation***

Intra-HEINEKEN balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-HEINEKEN transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted associates and JVs are eliminated against the investment to the extent of HEINEKEN's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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**Table of Contents****(b) Foreign currency****(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of HEINEKEN entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss arising on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured at cost are translated into the functional currency using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale (equity) investments and foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment, which are recognised in other comprehensive income.

**(ii) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Euro at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Euro at exchange rates approximating to the exchange rates ruling at the dates of the transactions. Group entities, with a functional currency being the currency of a hyperinflationary economy, first restate their financial statements in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies. The related income, costs and balance sheet amounts are translated at the foreign exchange rate ruling at the balance sheet date.

Foreign currency differences are recognised in other comprehensive income and are presented within equity in the translation reserve. However, if the operation is not a wholly owned subsidiary, the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When HEINEKEN disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When HEINEKEN disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the translation reserve.

The following exchange rates, for the most important countries in which HEINEKEN has operations, were used while preparing these consolidated financial statements:

| In EUR                    | Year-end<br>2016 | Year-end<br>2015 | Year-end<br>2014 | Average<br>2016 | Average<br>2015 | Average<br>2014 |
|---------------------------|------------------|------------------|------------------|-----------------|-----------------|-----------------|
| Brazilian Real (BRL)      | 0.2915           | 0.2319           | 0.3105           | 0.2592          | 0.2705          | 0.3202          |
| Great Britain Pound (GBP) | 1.1680           | 1.3625           | 1.2839           | 1.2209          | 1.3772          | 1.2403          |
| Mexican Peso (MXN)        | 0.0463           | 0.0530           | 0.0560           | 0.0484          | 0.0568          | 0.0566          |
| Nigerian Naira (NGN)      | 0.0030           | 0.0046           | 0.0049           | 0.0036          | 0.0047          | 0.0048          |
| Polish Zloty (PLN)        | 0.2260           | 0.2357           | 0.2340           | 0.2292          | 0.2390          | 0.2389          |
| Russian Ruble (RUB)       | 0.0156           | 0.0124           | 0.0138           | 0.0135          | 0.0147          | 0.0196          |
| Singapore Dollar (SGD)    | 0.6564           | 0.6486           | 0.6227           | 0.6547          | 0.6556          | 0.5943          |

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|                                  |        |        |        |        |        |        |
|----------------------------------|--------|--------|--------|--------|--------|--------|
| United States Dollar (USD)       | 0.9487 | 0.9185 | 0.8237 | 0.9036 | 0.9011 | 0.7527 |
| Vietnamese Dollar in 1,000 (VND) | 0.0417 | 0.0409 | 0.0387 | 0.0404 | 0.0411 | 0.0355 |

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### ***(iii) Hedge of net investments in foreign operations***

Foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in other comprehensive income to the extent that the hedge is effective and regardless of whether the net investment is held directly or through an intermediate parent. These differences are presented within equity in the translation reserve. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

### **(c) Non-derivative financial instruments**

#### ***(i) General***

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

If HEINEKEN has a legal right to offset financial assets with financial liabilities and if HEINEKEN intends either to settle on a net basis or to realise the asset and settle the liability simultaneously, financial assets and liabilities are presented in the statement of financial position as a net amount. The right of set-off is available today and not contingent on a future event and it is also legally enforceable for all counterparties in a normal course of business, as well as in the event of default, insolvency or bankruptcy.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts and commercial papers form an integral part of HEINEKEN's cash management and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting policies for interest income, interest expenses and other net finance income and expenses are discussed in note 3(r).

#### ***(ii) Held-to-maturity investments***

If HEINEKEN has the positive intent and ability to hold debt securities to maturity, they are classified as held-to-maturity. Debt securities are loans and long-term receivables and are measured at amortised cost using the effective interest method, less any impairment losses. Investments held-to-maturity are recognised or derecognised on the day they are transferred to or by HEINEKEN.

#### ***(iii) Available-for-sale investments***

HEINEKEN's investments in equity securities and certain debt securities are classified as available-for-sale. Subsequent to initial recognition, they are measured at fair value and changes therein other than impairment losses (see note 3i(i)) and foreign currency differences on available-for-sale monetary items (see note 3b(i)) are recognised in other comprehensive income and presented within equity in the fair value reserve. When these investments are derecognised, the relevant cumulative gain or loss in the fair value reserve is transferred to profit or loss.

Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. Available-for-sale investments are recognised or derecognised by HEINEKEN on the date it commits to purchase or sell the investments.

#### ***(iv) Other***

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

**(d) Derivative financial instruments (including hedge accounting)**

**(i) General**

HEINEKEN uses derivatives in the ordinary course of business in order to manage market risks. Generally, HEINEKEN applies hedge accounting in order to minimise the effects of foreign currency, interest rate or commodity price fluctuations in profit or loss.

Derivatives that can be used are interest rate swaps, forward rate agreements, caps and floors, commodity swaps, spot and forward exchange contracts and options. Transactions are entered into with a limited number of counterparties with strong credit ratings. Foreign currency, interest rate and commodity hedging operations are governed by internal policies and rules approved and monitored by the Executive Board.



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Derivative financial instruments are recognised initially at fair value, with attributable transaction costs recognised in profit or loss as incurred. Derivatives for which hedge accounting is not applied are accounted for as instruments at fair value through profit or loss. When derivatives qualify for hedge accounting, subsequent measurement is at fair value, and changes therein accounted for as described in 3b(iii), 3d(ii) or 3d(iii).

### ***(ii) Cash flow hedges***

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income and presented in the hedging reserve within equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, hedge accounting is discontinued. The cumulative unrealised gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity is recognised in profit or loss immediately. When a hedging instrument is terminated, but the hedged transaction still is expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised in accordance with the above-mentioned policy when the transaction occurs. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in other comprehensive income is transferred to the same line of profit or loss in the same period that the hedged item affects profit or loss.

### ***(iii) Fair value hedges***

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognised in profit or loss. The hedged item is also stated at fair value in respect of the risk being hedged; the gain or loss attributable to the hedged risk is recognised in profit or loss and adjusts the carrying amount of the hedged item.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

### ***(iv) Separable embedded derivatives***

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

## **(e) Share capital**

### ***(i) Ordinary shares***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

### ***(ii) Repurchase of share capital (treasury shares)***

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares.

When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

**(iii) Dividends**

Dividends are recognised as a liability in the period in which they are declared.

**(f) Property, plant and equipment**

**(i) Owned assets**

Items of property, plant and equipment (P, P & E) are measured at cost less government grants received (refer to (q)), accumulated depreciation (refer to (iv)) and accumulated impairment losses (3i(ii)).

Cost comprises the initial purchase price increased with expenditures that are directly attributable to the acquisition of the asset (such as transports and non-recoverable taxes). The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use (refer to an appropriate proportion of production overheads), and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised as part of the cost of that asset. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of P, P & E.

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Spare parts that are acquired as part of an equipment purchase and only to be used in connection with this specific equipment or purchased software that is integral to the functionality of the related equipment are capitalised and amortised as part of that equipment. In all other cases, spare parts are carried as inventory and recognised in the income statement as consumed. Where an item of P, P & E comprises major components having different useful lives, they are accounted for as separate items (major components) of P, P & E.

Returnable bottles and kegs in circulation are recorded within P, P & E and a corresponding liability is recorded in respect of the obligation to repay the customers' deposits. Deposits paid by customers for returnable items are reflected in the consolidated statement of financial position within current liabilities.

**(ii) Leased assets**

Leases in terms of which HEINEKEN assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, P, P & E acquired by way of finance lease is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease. Lease payments are apportioned between the outstanding liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and are not recognised in HEINEKEN's statement of financial position. Payments made under operating leases are charged to profit or loss on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

**(iii) Subsequent expenditure**

The cost of replacing a part of an item of P, P & E is recognised in the carrying amount of the item or recognised as a separate asset, as appropriate, if it is probable that the future economic benefits embodied within the part will flow to HEINEKEN and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of P, P & E are recognised in profit or loss when incurred.

**(iv) Depreciation**

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Land, except for financial leases on land over the contractual period, is not depreciated as it is deemed to have an infinite life. Depreciation on other P, P & E is charged to profit or loss on a straight-line basis over the estimated useful lives of items of P, P & E, and major components that are accounted for separately, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Assets under construction are not depreciated. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that HEINEKEN will obtain ownership by the end of the lease term. The estimated useful lives for the current and comparative years are as follows:

|                     |    |          |
|---------------------|----|----------|
| Buildings           | 30 | 40 years |
| Plant and equipment | 10 | 30 years |
| Other fixed assets  | 3  | 10 years |

Where parts of an item of P, P & E have different useful lives, they are accounted for as separate items of P, P & E.

The depreciation methods and residual value as well as the useful lives are reassessed, and adjusted if appropriate, at each financial year-end.

**(v) Gains and losses on sale**

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Net gains on sale of items of P, P & E are presented in profit or loss as other income. Net losses on sale are included in depreciation. Net gains and losses are recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, and there is no continuing management involvement with the P, P & E.

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### **(g) Intangible assets**

#### **(i) Goodwill**

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the cost of the acquisition over HEINEKEN's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill arising on the acquisition of associates and joint ventures is included in the carrying amount of the associates and joint ventures.

Goodwill is measured at cost less accumulated impairment losses (refer to accounting policy 3i(ii)). Goodwill is allocated to individual or groups of cash-generating units (CGUs) for the purpose of impairment testing and is tested annually for impairment. Negative goodwill is recognised directly in profit or loss as other income.

#### **(ii) Brands**

Brands acquired, separately or as part of a business combination, are capitalised if they meet the definition of an intangible asset and the recognition criteria are satisfied.

Strategic brands are well-known international/local brands with a strong market position and an established brand name. Strategic brands are amortised on an individual basis over the estimated useful life of the brand. Other brands are amortised on a portfolio basis per country.

#### **(iii) Customer-related, contract-based intangibles and reacquired rights**

Customer-related and contract-based intangibles are capitalised if they meet the definition of an intangible asset and the recognition criteria are satisfied. If the amounts are not material, these are included in the brand valuation. The relationship between brands and customer-related intangibles is carefully considered so that brands and customer-related intangibles are not both recognised on the basis of the same cash flows.

Reacquired rights are identifiable intangible assets recognised in an acquisition that represent the right an acquirer previously has granted to the acquiree to use one or more of the acquirer's recognised or unrecognised assets.

Customer-related and contract-based intangibles acquired as part of a business combination are valued at fair value. Customer-related and contract-based intangibles acquired separately are measured at cost.

Customer-related, contract-based intangibles and reacquired rights are amortised over the remaining useful life of the customer relationships or the period of the contractual arrangements.

#### **(iv) Software, research and development and other intangible assets**

Purchased software is measured at cost less accumulated amortisation (refer to (vi)) and impairment losses (refer to accounting policy 3i(ii)). Expenditure on internally developed software is capitalised when the expenditure qualifies as development activities, otherwise it is recognised in profit or loss when incurred.

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products, software and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and HEINEKEN intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or

loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation (refer to (vi)) and accumulated impairment losses (refer to accounting policy 3i(ii)).

Other intangible assets that are acquired by HEINEKEN and have finite useful lives are measured at cost less accumulated amortisation (refer to (vi)) and impairment losses (refer to accounting policy 3i(ii)). Expenditure on internally generated goodwill and brands is recognised in profit or loss when incurred.

**Table of Contents****(v) Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed when incurred.

**(vi) Amortisation**

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Intangible assets with a finite life are amortised on a straight-line basis over their estimated useful lives from the date they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives are as follows:

|   |    |          |
|---|----|----------|
| Strategic brands                                | 40 | 50 years |
| Other brands                                    | 15 | 25 years |
| Customer-related and contract-based intangibles | 5  | 20 years |
| Reacquired rights                               | 3  | 12 years |
| Software  | 3  | 7 years  |
| Capitalised development costs                   |    | 3 years  |

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(vii) Gains and losses on sale**

Net gains on sale of intangible assets are presented in profit or loss as other income. Net losses on sale are included in amortisation. Net gains and losses are recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, and there is no continuing management involvement with the intangible assets.

**(h) Inventories****(i) General**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(ii) Finished products and work in progress**

Finished products and work in progress are measured at manufacturing cost based on weighted averages and taking into account the production stage reached. Costs include an appropriate share of direct production overheads based on normal operating capacity.

**(iii) Other inventories and spare parts**

The cost of other inventories is based on weighted averages. Spare parts are valued at the lower of cost and net realisable value. Value reductions and usage of parts are charged to profit or loss. Spare parts that are acquired as part of an equipment purchase and only to be used in connection with this specific equipment are initially capitalised and depreciated as part of the equipment.

(i) **Impairment**

(i) *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.



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Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income and presented in the fair value reserve in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in other comprehensive income.

### ***(ii) Non-financial assets***

The carrying amounts of HEINEKEN's non-financial assets, other than inventories (refer to accounting policy (h)) and deferred tax assets (refer to accounting policy (s)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, CGU).

The recoverable amount of an asset or CGU is the higher of an asset's fair value less costs of disposal 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 or CGU.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the acquirer's CGUs, or groups of CGUs expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored on regional, sub-regional or country level depending on the characteristics of the acquisition, the synergies to be achieved and the level of integration.

An impairment loss is recognised in profit or loss if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses recognised in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate and joint venture is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate and joint venture is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

### **(j) Assets or disposal groups classified as held for sale**

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Assets or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are measured at the lower of their carrying amount and fair value less costs of disposal. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee defined benefit plan assets, which continue to be measured in accordance with HEINEKEN's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

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Intangible assets and P, P & E once classified as held for sale are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale.

### **(k) Employee benefits**

#### ***(i) Defined contribution plans***

A defined contribution plan is a post-employment benefit plan (pension plan) under which HEINEKEN pays fixed contributions into a separate entity. HEINEKEN has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employee renders the service are discounted to their present value.

#### ***(ii) Defined benefit plans***

A defined benefit plan is a post-employment benefit plan (pension plan) that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

HEINEKEN's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any defined benefit plan assets is deducted. The discount rate is the yield at balance sheet date on high-quality credit-rated bonds that have maturity dates approximating to the terms of HEINEKEN's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculations are performed annually by qualified actuaries using the projected unit credit method. When the calculation results in a benefit to HEINEKEN, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in HEINEKEN. An economic benefit is available to HEINEKEN if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are changed, the expense or benefit is recognised immediately in profit or loss.

HEINEKEN recognises all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in personnel expenses and other net finance income and expenses in profit or loss.

#### ***(iii) Other long-term employee benefits***

HEINEKEN's net obligation in respect of long-term employee benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at balance sheet date on high-quality credit-rated bonds that have maturity dates approximating to the terms of HEINEKEN's obligations. The obligation is calculated using the projected unit credit method. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

#### ***(iv) Termination benefits***

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Termination benefits are payable when employment is terminated by HEINEKEN before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

Termination benefits are recognised as an expense when HEINEKEN is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if HEINEKEN has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

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Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

### ***(v) Share-based payment plan (LTV)***

As from 1 January 2005, HEINEKEN established a share plan for the Executive Board and, as from 1 January 2006, HEINEKEN also established a share plan for senior management (refer to note 27).

The grant date fair value, adjusted for expected dividends, of the share rights granted is recognised as personnel expenses with a corresponding increase in equity (equity-settled) over the period that the employees become unconditionally entitled to the share rights. The costs of the share plan for both the Executive Board and senior management members are spread evenly over the performance period, during which vesting conditions are applicable subject to continued services. The total amount to be expensed is determined taking into consideration the expected forfeitures.

At each balance sheet date, HEINEKEN revises its estimates of the number of share rights that are expected to vest, for the 100 per cent internal performance conditions of the running share plans for the senior management members and the Executive Board. It recognises the impact of the revision of original estimates (only applicable for non-market performance conditions, if any) in profit or loss, with a corresponding adjustment to equity.

### ***(vi) Matching share entitlement***

As from 21 April 2011, HEINEKEN established a matching share entitlement for the Executive Board. The grant date fair value of the matching shares is recognised as personnel expenses in the income statement as it is deemed an equity-settled share-based payment.

### ***(vii) Short-term employee benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term benefits if HEINEKEN has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

## **(l) Provisions**

### ***(i) General***

A provision is recognised if, as a result of a past event, HEINEKEN has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as part of net finance expenses.

### ***(ii) Restructuring***

A provision for restructuring is recognised when HEINEKEN has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating losses are not provided for. The provision includes the benefit commitments in connection with early retirement and redundancy schemes.

### ***(iii) Onerous contracts***

A provision for onerous contracts is recognised when the expected benefits to be derived by HEINEKEN from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract and taking into consideration any reasonably obtainable sub-leases for onerous lease contracts. Before a provision is established, HEINEKEN recognises any impairment loss on the assets associated with that contract.

*(iv) Other*

The other provisions, not being provisions for restructuring or onerous contracts, consist mainly of surety and guarantees, litigation and claims and environmental provisions.

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### **(m) Loans and borrowings**

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Loans and borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Loans and borrowings included in a fair value hedge are stated at fair value in respect of the risk being hedged.

Loans and borrowings for which HEINEKEN has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date are classified as non-current liabilities.

### **(n) Revenue**

#### ***(i) Products sold***

Revenue from the sale of products in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of sales tax, excise duties, returns, customer discounts and other sales-related discounts. Revenue from the sale of products is recognised in profit or loss when the amount of revenue can be measured reliably, the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of products can be estimated reliably, and there is no continuing management involvement with the products.

If it is probable that discounts will be granted and the amount can be measured reliably, the discount is recognised as a reduction of revenue as the sales are recognised.

#### ***(ii) Other revenue***

Other revenues are proceeds from royalties, rental income, pub management services and technical services to third parties, net of sales tax. Royalties are recognised in profit or loss on an accrual basis in accordance with the substance of the relevant agreement. Rental income, pub management services and technical services are recognised in profit or loss when the services have been delivered.

### **(o) Other income**

Other income includes gains from sale of P, P & E, intangible assets and (interests in) subsidiaries, joint ventures and associates, net of sales tax. They are recognised in profit or loss when risks and rewards have been transferred to the buyer.

### **(p) Expenses**

#### ***(i) Operating lease payments***

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease.

#### ***(ii) Finance lease payments***

Minimum lease payments under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

**(q) Government grants**

Government grants are recognised at their fair value when it is reasonably assured that HEINEKEN will comply with the conditions attaching to them and the grants will be received.

Government grants relating to P, P & E are deducted from the carrying amount of the asset.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

**(r) Interest income, interest expenses and other net finance income and expenses**

Interest income and expenses are recognised as they accrue in profit or loss, using the effective interest method unless collectability is in doubt.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.



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Other net finance income and expenses comprises dividend income, gains and losses on the disposal of available-for-sale investments, changes in the fair value of investments designated at fair value through profit or loss and held for trading investments, changes in fair value of hedging instruments that are recognised in profit or loss, unwinding of the discount on provisions, impairment losses recognised on investments and interest on the net defined benefit obligation. Dividend income is recognised in the income statement on the date that HEINEKEN's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Foreign currency gains and losses are reported on a net basis in the other net finance income and expenses.

### **(s) Income tax**

Income tax comprises current and deferred tax. Current tax and deferred tax are recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity, or in other comprehensive income.

#### **(i) Current tax**

Current tax is the expected income tax payable or receivable in respect of taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to income tax payable in respect of previous years.

#### **(ii) Deferred tax**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

Deferred tax is not recognised for:

temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss

temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that HEINEKEN is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future

taxable temporary differences arising on the initial recognition of goodwill

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

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously.

Deferred tax is provided for on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by HEINEKEN and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

*(iii) Uncertain tax positions*

In determining the amount of current and deferred income tax, HEINEKEN takes into account the impact of uncertain income tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes HEINEKEN to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the income tax expense in the period that such a determination is made.

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### **(t) Discontinued operations**

A discontinued operation is a component of HEINEKEN's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

### **(u) Earnings per share**

HEINEKEN presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for the weighted average number of own shares purchased in the year. Diluted EPS is determined by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding, adjusted for the weighted average number of own shares purchased in the year and for the effects of all dilutive potential ordinary shares which comprise share rights granted to employees.

### **(v) Cash flow statement**

The cash flow statement is prepared using the indirect method. Changes in balance sheet items that have not resulted in cash flows such as translation differences, fair value changes, equity-settled share-based payments and other non-cash items have been eliminated for the purpose of preparing this statement. Assets and liabilities acquired as part of a business combination are included in investing activities (net of cash acquired). Dividends paid to ordinary shareholders are included in financing activities. Dividends received are classified as operating activities. Interest paid is also included in operating activities.

### **(w) Operating segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Board, which is considered to be HEINEKEN's chief operating decision-maker. An operating segment is a component of HEINEKEN that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of HEINEKEN's other components. All operating segments' operating results are reviewed regularly by the Executive Board to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment results, assets and liabilities that are reported to the Executive Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated result items comprise net finance expenses and income tax expenses. Unallocated assets comprise current other investments and cash call deposits.

Segment capital expenditure is the total cost incurred during the period to acquire P, P & E, and intangible assets other than goodwill.

### **(x) Recently issued IFRS**

#### ***New relevant standards and interpretations not yet adopted***

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016, which HEINEKEN has not applied in preparing these consolidated financial statements.

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IFRS 9, published in July 2014, replaces existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. HEINEKEN will implement IFRS 9 per 1 January 2018. Based on preliminary assessments HEINEKEN is expecting IFRS 9 will have limited impact on its consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers, published in May 2014, establishes a framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance and will be implemented by HEINEKEN per 1 January 2018. HEINEKEN has started workshops with key Operating Companies (OpCos) to identify the areas where IFRS 15 changes the current accounting policies. HEINEKEN also provided training to all OpCos and made a high level impact assessment. Based on these preliminary assessments HEINEKEN concluded that IFRS 15 impacts the presentation in profit or loss of payments to customers for services received, such as payments to customers for marketing support. Most of these marketing support payments are currently classified as marketing expenses, but could be considered a reduction of revenue under IFRS 15 if the fair value of the service received cannot be reasonably estimated. The impact of the standard will be further investigated in 2017.

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IFRS 16 Leases, published in January 2016, establishes a revised framework for determining whether a lease is recognised on the (Consolidated) Statement of Financial Position. It replaces existing guidance on leases, including IAS 17. HEINEKEN expects to implement IFRS 16 per 1 January 2019. In 2016, HEINEKEN has completed an internal questionnaire and has started to collect rental and lease contracts from the OpCos. HEINEKEN is currently in the process of determining to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect HEINEKEN's profit and classification of cash flows. Operating leases that will be recorded on HEINEKEN's balance sheet as a result of IFRS 16 will mainly be for offices, warehouses, pubs, stores, cars and (forklift) trucks. HEINEKEN will further analyse the lease contracts in 2017 to prepare an initial impact assessment.

The following new or amended standards are not expected to have a significant impact of HEINEKEN consolidated financial statements:

Disclosure Initiative (amendments to IAS 7)

Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)

Classification and measurement of Share-based Payments (amendments to IFRS 2)

### **4. Determination of fair values**

#### ***General***

A number of HEINEKEN's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values or for the purpose of impairment testing is disclosed in the notes specific to that asset or liability.

#### **Fair value as a result of business combinations**

##### ***(i) Property, plant and equipment***

The fair value of P, P & E recognised as a result of a business combination is based on market prices for similar items when available and replacement cost when appropriate.

##### ***(ii) Intangible assets***

The fair value of brands acquired in a business combination is based on the relief from royalty method or determined using the multi-period excess earnings method. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. The fair value of reacquired rights and other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

##### ***(iii) Inventories***

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

**(iv) Trade and other receivables**

The fair value of trade and other receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

**Fair value from normal business**

**(i) Investments in equity and debt securities**

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date or, if unquoted, determined using an appropriate valuation technique. The fair value of held-to-maturity investments is determined for disclosure purposes only. In case the quoted price does not exist at the date of exchange or in case the quoted price exists at the date of exchange but was not used as the cost, the investments are valued indirectly based on discounted cash flow models.

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***(ii) Derivative financial instruments***

The fair value of derivative financial instruments is based on their listed market price, if available. If a listed market price is not available, fair value is in general estimated by discounting the difference between the cash flows based on contractual price and the cash flows based on current price for the residual maturity of the contract using observable interest yield curves, basis spread and foreign exchange rates.

Fair values include the instrument's credit risk and adjustments to take account of the credit risk of the HEINEKEN entity and counterparty when appropriate.

***(iii) Non-derivative financial instruments***

Fair value, which is determined for disclosure purposes or when fair value hedge accounting is applied, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

Fair values include the instrument's credit risk and adjustments to take account of the credit risk of the HEINEKEN entity and counterparty when appropriate.

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### **5. Operating segments**

HEINEKEN distinguishes the following five reportable segments:

Africa, Middle East & Eastern Europe\*

Americas

Asia Pacific

Europe

Head Office and Other/eliminations

\* Within the Africa, Middle East & Eastern Europe segment, Eastern Europe consists of Belarus and Russia. The first four reportable segments as stated above are HEINEKEN's business regions. These business regions are each managed separately by a Regional President. The Regional President is directly accountable for the functioning of the segment's assets, liabilities and results of the region and reports regularly to the Executive Board (the chief operating decision-maker) to discuss operating activities, regional forecasts and regional results. The Head Office operating segment falls directly under the responsibility of the Executive Board. The Executive Board reviews the performance of the segments based on internal management reports on a monthly basis.

Information regarding the results of each reportable segment is included in the table on the next page. Performance is measured based on EBIT (beia), as included in the internal management reports that are reviewed by the Executive Board. EBIT (beia) is defined as earnings before interest and taxes and net finance expenses, before exceptional items and amortisation of acquisition-related intangibles. Exceptional items are defined as items of income and expense of such size, nature or incidence, that in the view of management their disclosure is relevant to explain the performance of HEINEKEN for the period. EBIT and EBIT (beia) are not financial measures calculated in accordance with IFRS. EBIT (beia) is used to measure performance as management believes that this measurement is the most relevant in evaluating the results of these segments.

HEINEKEN has multiple distribution models to deliver goods to end customers. There is no reliance on major clients. Deliveries to end consumers are done in some countries via own wholesalers or own pubs, in other markets directly and in some others via third parties. As such, distribution models are country-specific and diverse across HEINEKEN. In addition, these various distribution models are not centrally managed or monitored. Consequently, the Executive Board is not allocating resources and assessing the performance based on business type information and therefore no segment information is provided on business type.

Inter-segment pricing is determined on an arm's length basis. As net finance expenses and income tax expenses are monitored on a consolidated level (and not on an individual regional basis) and regional presidents are not accountable for that, net finance expenses and income tax expenses are not provided for the reportable segments.



**Table of Contents****Information about reportable segments**

| In millions of EUR   | Note | 2016          | Europe<br>2015 | 2014 <sup>4</sup> | 2016         | Americas<br>2015 | 2014  |
|--|------|---------------|----------------|-------------------|--------------|------------------|-------|
| <b>Revenue</b>   |      |               |                |                   |              |                  |       |
| Third party revenue <sup>1</sup>   |      | 9,422         | 9,510          | 9,077             | 5,200        | 5,154            | 4,626 |
| Interregional revenue  |      | 690           | 717            | 684               | 3            | 5                | 5     |
| Total revenue  |      | <b>10,112</b> | 10,227         | 9,761             | <b>5,203</b> | 5,159            | 4,631 |
| <b>Other income</b>  |      |               |                |                   |              |                  |       |
| Results from operating activities  | 8    | 39            | 34             | 76                | 12           | 6                | 7     |
| Net finance expenses   |      | <b>1,208</b>  | 1,039          | 1,054             | <b>883</b>   | 807              | 660   |
| Share of profit of associates and joint ventures and impairments thereof | 12   |               |                |                   |              |                  |       |
| Income tax expense   | 16   | 13            | 16             | 33                | 69           | 74               | 60    |
| Profit   | 13   |               |                |                   |              |                  |       |
| <b>Attributable to:</b>  |      |               |                |                   |              |                  |       |
| Equity holders of the Company (net profit)                               |      |               |                |                   |              |                  |       |
| Non-controlling interests  |      |               |                |                   |              |                  |       |
| <b>EBIT reconciliation</b>   |      |               |                |                   |              |                  |       |
| EBIT <sup>2</sup>  |      | 1,221         | 1,055          | 1,087             | 952          | 881              | 720   |
| Eia <sup>2</sup>   |      | 54            | 159            | 42                | 149          | 97               | 121   |
| EBIT (beia) <sup>2</sup>   |      | <b>1,275</b>  | 1,214          | 1,129             | <b>1,101</b> | 978              | 841   |
| <b>Current segment assets<sup>3</sup></b>                                |      |               |                |                   |              |                  |       |
| Non-current segment assets   |      | 2,898         | 3,392          | 4,182             | 2,003        | 1,814            | 2,261 |
| Investments in associates and joint ventures                             |      | 10,047        | 10,605         | 10,070            | 5,854        | 5,877            | 5,382 |
| Total segment assets   |      | 162           | 190            | 301               | 1,203        | 1,098            | 792   |
| Unallocated assets   |      | <b>13,107</b> | 14,187         | 14,553            | <b>9,060</b> | 8,789            | 8,435 |
| Total assets   |      |               |                |                   |              |                  |       |
| <b>Segment liabilities<sup>3</sup></b>                                   |      |               |                |                   |              |                  |       |
| Unallocated liabilities  |      | 4,804         | 5,193          | 6,071             | 1,383        | 1,354            | 1,199 |
| Total equity   |      |               |                |                   |              |                  |       |
| Total equity and liabilities   |      |               |                |                   |              |                  |       |
| <b>Purchase of P, P &amp; E</b>  |      |               |                |                   |              |                  |       |
| Acquisition of goodwill  | 14   | 533           | 548            | 504               | 502          | 369              | 291   |
| Purchases of intangible assets   | 15   | 6             | 51             | 100               | 4            | 132              |       |
| Depreciation of P, P & E   | 15   | 40            | 22             | 13                | 22           | 14               | 13    |
| (Impairment) and reversal of impairment of P, P & E                      | 14   | (487)         | (517)          | (490)             | (230)        | (226)            | (219) |
| Amortisation intangible assets   | 14   | 11            | (23)           | (3)               | 10           |                  |       |
| (Impairment) and reversal of impairment of intangible assets             | 15   | (60)          | (69)           | (57)              | (97)         | (96)             | (92)  |
|  | 15   |               | (4)            |                   |              |                  |       |

<sup>1</sup> Includes other revenue of EUR343 million in 2016, EUR386 million in 2015 and EUR377 million in 2014.

<sup>2</sup> Note that these are non-GAAP measures.

<sup>3</sup> Comparatives for 2015 and 2014 current segment assets and segment liabilities are revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

<sup>4</sup> As disclosed in the 2015 financial statements the 2014 numbers have been revised to reflect the change in regional segmentation.

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| In millions of EUR  | Note | Africa, Middle East &<br>Eastern Europe |              |                   | Asia Pacific  |              |              | Head Office &<br>Other/eliminations |              |                   | Consolidated  |               |               |
|---|------|---|--------------|-------------------|---------------|--------------|--------------|-------------------------------------|--------------|-------------------|---------------|---------------|---------------|
|   |      | 2016                                    | 2015         | 2014 <sup>4</sup> | 2016          | 2015         | 2014         | 2016                                | 2015         | 2014 <sup>4</sup> | 2016          | 2015          | 2014          |
| <b>Revenue</b>  |      |   |              |                   |               |              |              |                                     |              |                   |               |               |               |
| Third party revenue <sup>1</sup>  |      | 3,200                                   | 3,260        | 3,186             | 2,891         | 2,480        | 2,087        | 79                                  | 107          | 281               | 20,792        | 20,511        | 19,257        |
| Interregional revenue   |      | 3                                       | 3            | 3                 | 3             | 3            | 1            | (699)                               | (728)        | (693)             |               |               |               |
| <b>Total revenue</b>  |      | <b>3,203</b>                            | <b>3,263</b> | <b>3,189</b>      | <b>2,894</b>  | <b>2,483</b> | <b>2,088</b> | <b>(620)</b>                        | <b>(621)</b> | <b>(412)</b>      | <b>20,792</b> | <b>20,511</b> | <b>19,257</b> |
| Other income  | 8    | 1                                       | 51           | 10                | 1             | (62)         |              | (7)                                 | 382          |                   | 46            | 411           | 93            |
| Results from operating activities   |      | <b>38</b>                               | <b>487</b>   | <b>620</b>        | <b>710</b>    | <b>417</b>   | <b>407</b>   | <b>(84)</b>                         | <b>325</b>   | <b>39</b>         | <b>2,755</b>  | <b>3,075</b>  | <b>2,780</b>  |
| Net finance expenses  | 12   |   |              |                   |               |              |              |                                     |              |                   | (493)         | (409)         | (488)         |
| Share of profit of associates and joint ventures and impairments thereof                    | 16   | 49                                      | 52           | 28                | 19            | 30           | 29           |                                     |              | (2)               | 150           | 172           | 148           |
| Income tax expense  | 13   |   |              |                   |               |              |              |                                     |              |                   | (673)         | (697)         | (732)         |
| <b>Profit</b>   |      |   |              |                   |               |              |              |                                     |              |                   | <b>1,739</b>  | <b>2,141</b>  | <b>1,708</b>  |
| <b>Attributable to:</b>   |      |   |              |                   |               |              |              |                                     |              |                   |               |               |               |
| Equity holders of the Company (net profit)  |      |   |              |                   |               |              |              |                                     |              |                   | 1,540         | 1,892         | 1,516         |
| Non-controlling interests   |      |   |              |                   |               |              |              |                                     |              |                   | 199           | 249           | 192           |
|   |      |   |              |                   |               |              |              |                                     |              |                   | <b>1,739</b>  | <b>2,141</b>  | <b>1,708</b>  |
| <b>EBIT reconciliation</b>  |      |   |              |                   |               |              |              |                                     |              |                   |               |               |               |
| EBIT <sup>2</sup>   |      | 87                                      | 539          | 648               | 729           | 447          | 436          | (84)                                | 325          | 37                | 2,905         | 3,247         | 2,928         |
| Eia <sup>2</sup>  |      | 337                                     | 92           | 51                | 217           | 288          | 146          | 38                                  | (325)        | (20)              | 795           | 311           | 340           |
| <b>EBIT (beia)<sup>2</sup></b>  |      | <b>424</b>                              | <b>631</b>   | <b>699</b>        | <b>946</b>    | <b>735</b>   | <b>582</b>   | <b>(46)</b>                         |              | <b>17</b>         | <b>3,700</b>  | <b>3,558</b>  | <b>3,268</b>  |
| <b>Current segment assets<sup>3</sup></b>   |      |   |              |                   |               |              |              |                                     |              |                   |               |               |               |
| Non-current segment assets  |      | 2,620                                   | 3,186        | 2,872             | 8,668         | 8,107        | 6,881        | 775                                 | 1,080        | 845               | 27,964        | 28,855        | 26,050        |
| Investments in associates and joint ventures  |      | 221                                     | 217          | 253               | 552           | 417          | 621          | 27                                  | 63           | 66                | 2,165         | 1,985         | 2,033         |
| <b>Total segment assets</b>   |      | <b>4,144</b>                            | <b>4,826</b> | <b>4,619</b>      | <b>10,370</b> | <b>9,566</b> | <b>8,340</b> | <b>1,628</b>                        | <b>1,778</b> | <b>2,728</b>      | <b>38,309</b> | <b>39,146</b> | <b>38,675</b> |
| Unallocated assets  |      |   |              |                   |               |              |              |                                     |              |                   | 1,012         | 976           | 674           |
| <b>Total assets</b>   |      |   |              |                   |               |              |              |                                     |              |                   | <b>39,321</b> | <b>40,122</b> | <b>39,349</b> |
| <b>Segment liabilities<sup>3</sup></b>  |      |   |              |                   |               |              |              |                                     |              |                   |               |               |               |
| Unallocated liabilities   |      |   |              |                   |               |              |              |                                     |              |                   | 14,433        | 13,798        | 12,624        |
| <b>Total equity</b>   |      |   |              |                   |               |              |              |                                     |              |                   | <b>14,573</b> | <b>15,070</b> | <b>13,452</b> |
| <b>Total equity and liabilities</b>   |      |   |              |                   |               |              |              |                                     |              |                   | <b>39,321</b> | <b>40,122</b> | <b>39,349</b> |
| Purchase of P, P & E  | 14   | 436                                     | 432          | 467               | 281           | 284          | 243          | 5                                   | 7            | 14                | 1,757         | 1,640         | 1,519         |
| Acquisition of goodwill   | 15   | 4                                       | 44           |                   | 11            | 392          |              |                                     |              |                   | 25            | 619           | 100           |
| Purchases of intangible assets  | 15   | 9                                       | 4            | 2                 | 5             | 2            | 1            | 33                                  | 51           | 28                | 109           | 93            | 57            |
| Depreciation of P, P & E (Impairment) and reversal of impairment of P, P & E                | 14   | (299)                                   | (286)        | (261)             | (131)         | (110)        | (83)         | (16)                                | (12)         | (27)              | (1,163)       | (1,151)       | (1,080)       |
| Amortisation intangible assets (Impairment) and reversal of impairment of intangible assets | 15   | (9)                                     | (16)         | (9)               | (181)         | (169)        | (148)        | (21)                                | (18)         | (25)              | (368)         | (368)         | (331)         |
|   | 15   | (1)                                     |              | (18)              | (11)          |              |              |                                     |              |                   | (12)          | (4)           | (18)          |

**Table of Contents****Reconciliation of segment profit or loss**

In the internal management reports, HEINEKEN measures its performance primarily based on EBIT and EBIT beia (before exceptional items and amortisation of acquisition-related intangible assets). Both are non-GAAP measures not calculated in accordance with IFRS. Beia adjustments are also applied on profit metrics. The presentation of these financial measures may not be comparable to similarly titled measures reported by other companies due to differences in the ways the measures are calculated.

The table below presents the reconciliation of EBIT (beia) to profit before tax

| In millions of EUR   | 2016  | 2015  | 2014  |
|--|-------|-------|-------|
| EBIT (beia)  | 3,700 | 3,558 | 3,268 |
| Exceptional items and amortisation of acquisition-related intangible assets included in EBIT | (795) | (311) | (340) |
| EBIT   | 2,905 | 3,247 | 2,928 |
| Net finance expenses   | (493) | (409) | (488) |
| Profit before income tax   | 2,412 | 2,838 | 2,440 |

**Exceptional items and amortisation of acquisition-related intangibles (Eia) in net profit**

The table below provides an overview of the exceptional items and amortisation of acquisition-related intangibles in HEINEKEN's net profit:

| In millions of EUR   | 2016  | 2015  | 2014  |
|--|-------|-------|-------|
| Profit attributable to equity holders of the Company (net profit)      | 1,540 | 1,892 | 1,516 |
| Amortisation of acquisition-related intangible assets included in EBIT | 315   | 321   | 291   |
| Exceptional items included in EBIT                                     | 480   | (10)  | 49    |
| Exceptional items included in net finance expenses/(income)            | 25    | (18)  | (1)   |
| Exceptional items included in income tax expense                       | (196) | (124) | (52)  |
| Exceptional items included in non-controlling interest                 | (66)  | (13)  | (45)  |
| Net profit (beia)  | 2,098 | 2,048 | 1,758 |

The 2016 exceptional items and amortisation of acquisition-related intangibles on net profit amounts to EUR558 million (2015: EUR156 million, 2014: EUR242 million). This amount consists of:

EUR315 million (2015: EUR321 million, 2014: EUR291 million) of amortisation of acquisition-related intangibles recorded in EBIT. EUR10 million (2015: EUR6 million, 2014: EUR8 million) of this amount is included in share of net profit of associates and joint ventures.

EUR480 million (2015: EUR10 million income, 2014: EUR49 million expense) of exceptional items recorded in EBIT. This includes restructuring expenses of EUR80 million (2015: EUR106 million, 2014: EUR111 million), impairments of EUR328 million (2015: EUR78 million, 2014: EUR21 million) of which EUR286 million relates to The Democratic Republic of Congo (DRC). Other exceptional expenses in EBIT amounted to EUR72 million (2015: EUR194 million income, 2014: EUR83 million income). This includes asset write downs and the recording of provisions for an amount of EUR62 million (2015: EUR79 million, 2014: nil) and the EUR379 million disposal gain for EMPAQUE in 2015.

EUR25 million (2015: EUR18 million income, 2014: EUR1 million income) of exceptional items in net finance expenses, mainly related to the currency impact on dividend receivables from Nigeria.

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EUR196 million (2015: EUR124 million, 2014: EUR52 million) in income tax expense includes the tax impact on amortisation of acquisition-related intangible assets of EUR73 million (2015: EUR75 million, 2014: EUR72 million), the tax impact on exceptional items of EUR36 million (2015: EUR58 million, 2014: EUR6 million) and exceptional income tax items of EUR87 million (2015: EUR9 million, 2014: EUR26 million expense), mainly relating to previously unrecognised deferred tax assets in 2016.

Total amount of Eia allocated to non-controlling interest amounts to EUR66 million (2015: EUR13 million, 2014: EUR45 million).

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**Table of Contents****6. Acquisitions and disposals of subsidiaries and non-controlling interests****Acquisition of subsidiaries**

During 2016, HEINEKEN completed several immaterial acquisitions, amongst others in the Philippines.

**Accounting for prior year acquisitions**

The accounting for the acquisitions of Heineken South Africa (Pty) Limited (formerly known as DHN Drinks (Pty) Limited) and Sedibeng Brewery (Pty) Limited (South Africa), Desnoes & Geddes (Jamaica), GAPL Pte Ltd (Malaysia) and Pivovarna Lasko (Slovenia) has been finalised in the fourth quarter of 2016 without any significant adjustments.

**Acquisitions of non-controlling interests**

During 2016 HEINEKEN acquired 22.5 per cent of the floating shares in Desnoes & Geddes ( D&G ). HEINEKEN owned a 95.8 per cent stake in D&G as at 31 December 2016. Furthermore, during 2016 HEINEKEN acquired the remaining 46.6% floating shares in Pivovarna Lasko Union, d.o.o. (formerly known as Pivovarna La ko d.d.). The consideration paid for the acquisition of non-controlling interests in 2016 and the related equity impact (result of buy out) are disclosed in the table below:

| <i>In millions of EUR</i>  | Consideration paid | Value of non-controlling interest | Result buy-out |
|----------------------------|--------------------|-----------------------------------|----------------|
| Desnoes & Geddes (Jamaica) | 150                | 85                                | 65             |
| Pivovarna Lasko (Slovenia) | 104                | 54                                | 50             |
| Other                      | 40                 | 5                                 | 35             |
| Total                      | 294                | 144                               | 150            |

**Disposal of Distribev**

On 1 February 2016, HEINEKEN completed the sale of 80% in Distribev Sp. z o.o., Grupa Żywiec S.A.'s local sales and distribution company serving the traditional trade and horeca market, to the Orbico Group. A EUR8 million pre-tax gain was recorded in other income.

**7. Assets or disposal groups classified as held for sale**

The assets and liabilities below are classified as held for sale following the commitment of HEINEKEN to a plan to sell these assets and liabilities. Efforts to sell the assets and liabilities classified as held for sale have commenced and are expected to be completed during 2017.

**Assets and liabilities classified as held for sale**

| <i>In millions of EUR</i>               | 2016        | 2015 |
|---|-------------|------|
| Current assets                          | 13          | 53   |
| Property, plant and equipment           | 38          | 67   |
| Intangible assets                       | 6           | 0    |
| Other non-current assets                |             | 3    |
| Assets classified as held for sale      | <b>57</b>   | 123  |
| Current liabilities                     | (11)        | (31) |
| Non-current liabilities                 | (6)         | 0    |
| Liabilities classified as held for sale | <b>(17)</b> | (31) |

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In 2015, the assets and liabilities held for sale mainly related to Distributions Sp. z.o.o. (Grupa Żywiec S.A.'s sales and distribution company serving the traditional trade and horeca market) in Poland. Closing of the transaction occurred on 1 February 2016.

### 8. Other income

| In millions of EUR  | Note | 2016      | 2015       | 2014      |
|---|------|-----------|------------|-----------|
| Gain on sale of property, plant and equipment               |      | 38        | 37         | 41        |
| Gain on sale of subsidiaries, joint ventures and associates | 6    | 8         | 374        | 52        |
|   |      | <b>46</b> | <b>411</b> | <b>93</b> |

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In 2015 HEINEKEN recorded a post-tax disposal gain on the divestment of EMPAQUE. Included in other income in 2014, is the gain of HEINEKEN's PHEI in Zagorka, amounting to EUR51 million.

**9. Raw materials, consumables and services**

| In millions of EUR             | 2016          | 2015   | 2014   |
|--------------------------------|---------------|--------|--------|
| Raw materials                  | 1,646         | 1,616  | 1,782  |
| Non-returnable packaging       | 3,187         | 3,049  | 2,551  |
| Goods for resale               | 1,523         | 1,775  | 1,495  |
| Inventory movements            | (54)          | (141)  | (15)   |
| Marketing and selling expenses | 2,836         | 2,755  | 2,447  |
| Transport expenses             | 1,100         | 1,139  | 1,050  |
| Energy and water               | 476           | 517    | 548    |
| Repair and maintenance         | 475           | 485    | 458    |
| Other expenses                 | 1,814         | 1,736  | 1,737  |
|                                | <b>13,003</b> | 12,931 | 12,053 |

Other expenses mainly include rentals of EUR302 million (2015: EUR301 million, 2014: EUR291 million), consultant expenses of EUR140 million (2015: EUR142 million, 2014: EUR179 million), telecom and office automation of EUR220 million (2015: EUR206 million, 2014: EUR199 million), distribution expenses of EUR141 million (2015: EUR135 million, 2014: EUR122 million), travel expenses of EUR148 million (2015: EUR151 million, 2014: EUR143 million) and other taxes of EUR96 million (2015: EUR144 million, 2014: EUR124 million).

**10. Personnel expenses**

| In millions of EUR                                    | Note | 2016         | 2015  | 2014  |
|---|------|--------------|-------|-------|
| Wages and salaries                                    |      | 2,158        | 2,178 | 2,107 |
| Compulsory social security contributions              |      | 333          | 346   | 337   |
| Contributions to defined contribution plans           |      | 48           | 47    | 42    |
| Expenses/(income) related to defined benefit plans    | 26   | 88           | 78    | (31)  |
| Expenses related to other long-term employee benefits |      | 1            | 3     | 8     |
| Equity-settled share-based payment plan               | 27   | 42           | 33    | 48    |
| Other personnel expenses                              |      | 593          | 637   | 569   |
|   |      | <b>3,263</b> | 3,322 | 3,080 |

In other personnel expenses, restructuring costs are included for an amount of EUR38 million (2015: EUR90 million, 2014: EUR101 million). Restructuring is disclosed in the provisions (refer to note 28).

The average number of full-time equivalent (FTE) employees during the year was:

|  | 2016          | 2015*  | 2014   |
|--|---------------|--------|--------|
| The Netherlands                        | 3,907         | 3,936  | 3,897  |
| Other Europe                           | 24,012        | 25,161 | 24,739 |
| Americas                               | 20,917        | 20,985 | 22,610 |
| Africa, Middle East and Eastern Europe | 15,193        | 15,102 | 16,212 |
| Asia Pacific                           | 9,496         | 8,728  | 8,678  |
|  | <b>73,525</b> | 73,912 | 76,136 |

\* Revised

**11. Amortisation, depreciation and impairments**

| In millions of EUR            | Note | 2016         | 2015  | 2014  |
|-------------------------------|------|--------------|-------|-------|
| Property, plant and equipment | 14   | 1,437        | 1,222 | 1,088 |
| Intangible assets             | 15   | 380          | 372   | 349   |
|                               |      | <b>1,817</b> | 1,594 | 1,437 |

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**Table of Contents****12. Net finance income and expense****Recognised in profit or loss**

| In millions of EUR  | 2016  | 2015  | 2014  |
|---|-------|-------|-------|
| Interest income   | 60    | 60    | 48    |
| Interest expenses   | (419) | (412) | (457) |
| Dividend income from available-for-sale investments       | 12    | 10    | 10    |
| Gain/(loss) on disposal of available-for-sale investments |       | 18    |       |
| Net change in fair value of derivatives                   | 19    | 143   | 173   |
| Net foreign exchange gain/(loss)*                         | (114) | (179) | (205) |
| Unwinding discount on provisions                          | (1)   | (3)   | (5)   |
| Interest on the net defined benefit obligation            | (40)  | (44)  | (49)  |
| Other   | (10)  | (2)   | (3)   |
| Other net finance income/(expenses)                       | (134) | (57)  | (79)  |
| Net finance income/(expenses)                             | (493) | (409) | (488) |

\* Transactional foreign exchange effects of working capital

**13. Income tax expense****Recognised in profit or loss**

| In millions of EUR  | 2016  | 2015 | 2014 |
|---|-------|------|------|
| Current tax expense   |       |      |      |
| Current year  | 807   | 799  | 666  |
| Under/(over) provided in prior years  | (11)  | (3)  | (9)  |
|   | 796   | 796  | 657  |
| Deferred tax expense  |       |      |      |
| Origination and reversal of temporary differences, tax losses and tax credits | (45)  | (83) | 53   |
| Derecognition/(recognition) of deferred tax assets                            | (90)  | (3)  | (5)  |
| Effect of changes in tax rates  | 2     | 20   | 10   |
| Under/(over) provided in prior years  | 10    | (33) | 17   |
|   | (123) | (99) | 75   |
| Total income tax expense in profit or loss                                    | 673   | 697  | 732  |

**Reconciliation of the effective tax rate**

| In millions of EUR  | 2016  | 2015  | 2014  |
|---|-------|-------|-------|
| Profit before income tax  | 2,412 | 2,838 | 2,440 |
| Share of net profit of associates and joint ventures and impairments thereof  | (150) | (172) | (148) |
| Profit before income tax excluding share of profit of associates and joint ventures (including impairments thereof) | 2,262 | 2,666 | 2,292 |

|  | %     | 2016 | %    | 2015* | %    | 2014 |
|--|-------|------|------|-------|------|------|
| Income tax using the Company's domestic tax rate | 25.0  | 565  | 25.0 | 667   | 25.0 | 573  |
| Effect of tax rates in foreign jurisdictions     | (0.4) | (9)  | 2.1  | 57    | 3.8  | 87   |

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|  |             |            |       |       |       |      |
|--|-------------|------------|-------|-------|-------|------|
| Effect of non-deductible expenses          | 2.9         | 67         | 2.6   | 69    | 2.7   | 61   |
| Effect of tax incentives and exempt income | (2.8)       | (64)       | (7.6) | (205) | (4.0) | (93) |
| Derecognition/(recognition)                | (4.0)       | (90)       | (0.1) | (2)   | (0.3) | (8)  |
| Effect of unrecognised current year losses | 6.8         | 154        | 2.1   | 56    | 0.7   | 17   |
| Effect of changes in tax rates             | 0.1         | 2          | 0.8   | 20    | 0.4   | 10   |
| Withholding taxes                          | 3.1         | 70         | 1.9   | 50    | 2.6   | 60   |
| Under/(over) provided in prior years       |             | (1)        | (1.4) | (36)  | 0.3   | 8    |
| Other reconciling items                    | (1.0)       | (21)       | 0.8   | 21    | 0.7   | 17   |
|  | <b>29.7</b> | <b>673</b> | 26.2  | 697   | 31.9  | 732  |

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The effective tax rate 2016 includes the impact of impairments for which no tax benefit could be recognised. Partly offset by the recognition of previously unrecognised deferred tax assets. The effective tax rate 2015 included the gain on sale of EMPAQUE, which was tax exempt. The effective tax rate 2014 included one-off tax items with an overall negative tax impact.

For the income tax impact on items recognised directly in equity and in other comprehensive income, please refer to note 24.

**Table of Contents****14. Property, plant and equipment**

| In millions of EUR                                    | Note | Land and buildings | Plant and equipment | Other fixed assets | Under construction | Total           |
|---|------|--------------------|---------------------|--------------------|--------------------|-----------------|
| <b>Cost</b>   |      |                    |                     |                    |                    |                 |
| Balance as at 1 January 2015                          |      | 4,989              | 7,305               | 5,051              | 793                | 18,138          |
| Changes in consolidation                              |      | 256                | 280                 | 132                | 22                 | 690             |
| Purchases   |      | 84                 | 99                  | 428                | 1,029              | 1,640           |
| Transfer of completed projects under construction     |      | 240                | 607                 | 206                | (1,053)            |                 |
| Transfer (to)/from assets classified as held for sale |      | (50)               | (1)                 | (8)                |                    | (59)            |
| Disposals   |      | (54)               | (126)               | (354)              | (3)                | (537)           |
| Effect of movements in exchange rates                 |      | 15                 | (54)                | (47)               |                    | (86)            |
| Balance as at 31 December 2015                        |      | 5,480              | 8,110               | 5,408              | 788                | 19,786          |
| Balance as at 1 January 2016                          |      | <b>5,480</b>       | <b>8,110</b>        | <b>5,408</b>       | <b>788</b>         | <b>19,786</b>   |
| Changes in consolidation                              |      | 13                 |                     | 5                  |                    | 18              |
| Purchases   |      | 113                | 163                 | 338                | 1,143              | 1,757           |
| Transfer of completed projects under construction     |      | 212                | 696                 | 323                | (1,231)            |                 |
| Transfer (to)/from assets classified as held for sale |      | (19)               | (24)                | (8)                | (1)                | (52)            |
| Disposals   |      | (58)               | (131)               | (620)              | (4)                | (813)           |
| Effect of movements in exchange rates                 |      | (306)              | (420)               | (403)              | (29)               | (1,158)         |
| Balance as at 31 December 2016                        |      | <b>5,435</b>       | <b>8,394</b>        | <b>5,043</b>       | <b>666</b>         | <b>19,538</b>   |
| <b>Depreciation and impairment losses</b>             |      |                    |                     |                    |                    |                 |
| Balance as at 1 January 2015                          |      | (1,906)            | (4,099)             | (3,415)            |                    | (9,420)         |
| Changes in consolidation                              |      | (35)               | (51)                | (61)               |                    | (147)           |
| Depreciation charge for the year                      | 11   | (157)              | (424)               | (570)              |                    | (1,151)         |
| Impairment losses                                     | 11   | (18)               | (36)                | (17)               |                    | (71)            |
| Transfer to/(from) assets classified as held for sale |      | 14                 |                     | 5                  |                    | 19              |
| Disposals   |      | 29                 | 136                 | 332                |                    | 497             |
| Effect of movements in exchange rates                 |      | (15)               | 22                  | 32                 |                    | 39              |
| Balance as at 31 December 2015                        |      | (2,088)            | (4,452)             | (3,694)            |                    | (10,234)        |
| Balance as at 1 January 2016                          |      | <b>(2,088)</b>     | <b>(4,452)</b>      | <b>(3,694)</b>     |                    | <b>(10,234)</b> |
| Changes in consolidation                              |      | 1                  |                     | (2)                |                    | (1)             |
| Depreciation charge for the year                      | 11   | (158)              | (441)               | (564)              |                    | (1,163)         |
| Impairment losses                                     | 11   | (50)               | (229)               | (16)               |                    | (295)           |
| Reversal impairment losses                            | 11   | 7                  | 4                   | 10                 |                    | 21              |
| Transfer to/(from) assets classified as held for sale |      | 11                 | 23                  | 7                  |                    | 41              |
| Disposals   |      | 37                 | 128                 | 585                |                    | 750             |
| Effect of movements in exchange rates                 |      | 70                 | 234                 | 271                |                    | 575             |
| Balance as at 31 December 2016                        |      | <b>(2,170)</b>     | <b>(4,733)</b>      | <b>(3,403)</b>     |                    | <b>(10,306)</b> |
| <b>Carrying amount</b>                                |      |                    |                     |                    |                    |                 |
| As at 1 January 2015                                  |      | 3,083              | 3,206               | 1,636              | 793                | 8,718           |
| As at 31 December 2015                                |      | 3,392              | 3,658               | 1,714              | 788                | 9,552           |
| As at 1 January 2016                                  |      | <b>3,392</b>       | <b>3,658</b>        | <b>1,714</b>       | <b>788</b>         | <b>9,552</b>    |
| As at 31 December 2016                                |      | <b>3,265</b>       | <b>3,661</b>        | <b>1,640</b>       | <b>666</b>         | <b>9,232</b>    |

**Table of Contents****Impairment losses**

In 2016, a total impairment loss of EUR295 million (2015: EUR71 million, 2014: EUR8 million) was charged to profit or loss. These impairment losses mainly relate to The Democratic Republic of Congo (DRC). A slowdown of the expected future economic growth in DRC due to lower commodity prices, power constraints and lower investments and consumption resulting from political uncertainties, resulted in an impairment of assets in the cash generating unit (CGU). The impairment primarily relates to property, plant and equipment and has been recorded on the line "Amortisation, depreciation and impairments" in the Income Statement. The CGU DRC is part of the Africa and Middle East and Eastern Europe segment. The determination of the recoverable amount of these assets is based on a fair value less costs of disposal (FVLCD) valuation. The FVLCD is based on a discounted ten-year cash flow forecast (level 3). The key assumptions used to determine the cash flows are based on market expectations and management's best estimates. See the table below for the key assumptions:

| in per cent                | 2017-2026 | After that |
|----------------------------|-----------|------------|
| Sales volume growth (CAGR) | 3.4       | 0.0        |
| Cost inflation             | 4.0       | 4.0        |
| Discount rate - post tax   | 16.0      | 16.0       |

**Property, plant and equipment under construction**

P, P & E under construction mainly relates to extension of brewing capacity in various countries.

**Table of Contents****15. Intangible assets**

| In millions of EUR                           | Note | Goodwill | Brands | Customer-related intangibles | Contract-based intangibles | Software, research and development and other | Total   |
|--|------|----------|--------|------------------------------|----------------------------|--|---------|
| <b>Cost</b>                                  |      |          |        |                              |                            |  |         |
| Balance as at 1 January 2015                 |      | 10,803   | 4,072  | 2,174                        | 773                        | 514  | 18,336  |
| Changes in consolidation and other transfers |      | 611      | 475    | 333                          | 296                        | 18   | 1,733   |
| Purchased/internally developed               |      |          |        |                              |                            | 93   | 93      |
| Disposals                                    |      |          |        |                              |                            | (18)   | (18)    |
| Effect of movements in exchange rates        |      | 317      | 30     | 20                           | 32                         | (2)  | 397     |
| Balance as at 31 December 2015               |      | 11,731   | 4,577  | 2,527                        | 1,101                      | 605  | 20,541  |
| Balance as at 1 January 2016                 |      | 11,731   | 4,577  | 2,527                        | 1,101                      | 605  | 20,541  |
| Changes in consolidation and other transfers |      | 25       | 1      | 15                           | 19                         |  | 60      |
| Purchased/internally developed               |      |          | 1      | 2                            | 12                         | 94   | 109     |
| Disposals                                    |      |          |        | (2)                          |                            | (4)  | (6)     |
| Effect of movements in exchange rates        |      | (320)    | (188)  | (99)                         | (10)                       | (19)   | (636)   |
| Balance as at 31 December 2016               |      | 11,436   | 4,391  | 2,443                        | 1,122                      | 676  | 20,068  |
| <b>Amortisation and impairment losses</b>    |      |          |        |                              |                            |  |         |
| Balance as at 1 January 2015                 |      | (407)    | (462)  | (650)                        | (143)                      | (333)  | (1,995) |
| Changes in consolidation                     |      |          |        |                              | (1)                        | (1)  | (2)     |
| Amortisation charge for the year             | 11   |          | (108)  | (165)                        | (44)                       | (51)   | (368)   |
| Impairment losses                            | 11   |          | (3)    |                              |                            | (1)  | (4)     |
| Disposals                                    |      |          |        |                              |                            | 15   | 15      |
| Effect of movements in exchange rates        |      |          | 2      | 7                            | (14)                       | 1  | (4)     |
| Balance as at 31 December 2015               |      | (407)    | (571)  | (808)                        | (202)                      | (370)  | (2,358) |
| Balance as at 1 January 2016                 |      | (407)    | (571)  | (808)                        | (202)                      | (370)  | (2,358) |
| Changes in consolidation                     |      |          |        |                              |                            |  |         |
| Amortisation charge for the year             | 11   |          | (110)  | (147)                        | (53)                       | (58)   | (368)   |
| Impairment losses                            | 11   |          | (1)    | (11)                         |                            |  | (12)    |
| Disposals                                    |      |          |        |                              |                            | 3  | 3       |
| Effect of movements in exchange rates        |      |          | 26     | 58                           | (9)                        | 16   | 91      |
| Balance as at 31 December 2016               |      | (407)    | (656)  | (908)                        | (264)                      | (409)  | (2,644) |
| <b>Carrying amount</b>                       |      |          |        |                              |                            |  |         |
| As at 1 January 2015                         |      | 10,396   | 3,610  | 1,524                        | 630                        | 181  | 16,341  |
| As at 31 December 2015                       |      | 11,324   | 4,006  | 1,719                        | 899                        | 235  | 18,183  |
| As at 1 January 2016                         |      | 11,324   | 4,006  | 1,719                        | 899                        | 235  | 18,183  |
| As at 31 December 2016                       |      | 11,029   | 3,735  | 1,535                        | 858                        | 267  | 17,424  |

**Brands, customer-related and contract-based intangibles**

The main brands capitalised are the brands acquired in various acquisitions such as Fosters, Strongbow, Dos Equis, Tiger and Bintang. The main customer-related and contract-based intangibles relate to customer relationships with retailers in Mexico and Asia Pacific (constituted either by way of a contractual agreement or by way of non-contractual relations) and reacquired rights.



**Table of Contents****Impairment tests for cash-generating units containing goodwill**

For the purpose of impairment testing, goodwill in respect of Europe, the Americas (excluding Brazil) and Asia Pacific is allocated and monitored on a regional basis. For Brazil and subsidiaries within Africa, Middle East and Eastern Europe and Head Office, goodwill is allocated and monitored on an individual country basis. The carrying amounts of goodwill allocated to each (group of) CGU(s) are as follows:

| In millions of EUR                                  | 2016          | 2015          |
|---|---------------|---------------|
| Europe  | 4,788         | 5,060         |
| The Americas (excluding Brazil)                     | 2,115         | 2,124         |
| Brazil  | 78            | 62            |
| Africa, Middle East and Eastern Europe (aggregated) | 414           | 508           |
| Asia Pacific  | 3,154         | 3,090         |
| Head Office   | 480           | 480           |
|   | <b>11,029</b> | <b>11,324</b> |

Throughout the year, goodwill decreased mainly due to net foreign currency differences.

The recoverable amounts of the (group of) CGUs are based on value in use calculations. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit using a pre-tax discount rate.

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

Cash flows were projected based on actual operating results and the three-year business plan. Cash flows for a further seven-year period (except for Europe, where a further two-year period was applied) were extrapolated using expected annual per country volume growth rates, which are based on external sources. Management believes that this period is justified due to the long-term development of the local beer business and past experiences.

The beer price growth per year after the first three-year period is assumed to be at specific per country expected annual long-term inflation, based on external sources.

Cash flows after the first ten-year (Europe five-year) period were extrapolated using a perpetual growth rate equal to the expected annual long-term inflation, in order to calculate the terminal recoverable amount.

A per CGU-specific pre-tax Weighted Average Cost of Capital (WACC) was applied in determining the recoverable amount of the units.

The values assigned to the key assumptions used for the value in use calculations are as follows:

| In per cent                            | Pre-tax WACC | Expected annual long-term inflation 2020-2026 | Expected volume growth rates 2020-2026 |
|--|--------------|---|--|
| Europe                                 | 9.3          | 1.8   | 0.5                                    |
| The Americas (excluding Brazil)        | 13.6         | 3.2   | 3.4                                    |
| Brazil                                 | 16.9         | 4.9   | 3.4                                    |
| Africa, Middle East and Eastern Europe | 15.4-24.4    | 2.7-12.2                                      | 0.7-8.7                                |
| Asia Pacific                           | 14.5         | 4.6   | 3.2                                    |



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|             |     |     |     |
|-------------|-----|-----|-----|
| Head Office | 9.4 | 1.8 | 0.5 |
|-------------|-----|-----|-----|

The outcome of these impairment tests in 2016 did not result in an impairment loss (2015: nil, 2014: nil) being charged to profit or loss.

**Sensitivity to changes in assumptions**

The outcome of a sensitivity analysis of a 100 basis points adverse change in key assumptions (lower growth rates or higher discount rates respectively) did not result in a materially different outcome of the impairment test.

**Table of Contents****16. Investments in associates and joint ventures**

HEINEKEN has interests in a number of individually insignificant joint ventures and associates.

**Summarised financial information for equity accounted joint ventures and associates**

The following table includes, in aggregate, the carrying amount and HEINEKEN's share of profit and OCI of joint ventures and associates:

| In millions of EUR                        | Joint ventures |       |       | Associates |      |      |
|---|----------------|-------|-------|------------|------|------|
|   | 2016           | 2015  | 2014  | 2016       | 2015 | 2014 |
| Carrying amount of interests              | <b>2,022</b>   | 1,852 | 1,964 | <b>144</b> | 133  | 69   |
| Share of:                                 |                |       |       |            |      |      |
| Profit or loss from continuing operations | 124            | 151   | 135   | 26         | 21   | 13   |
| Other comprehensive income                |                | 7     | (7)   |            |      |      |
|   | <b>124</b>     | 158   | 128   | <b>26</b>  | 21   | 13   |

**17. Other investments and receivables**

| In millions of EUR                            | Note | 2016         | 2015 |
|---|------|--------------|------|
| Non-current other investments and receivables |      |              |      |
| Available-for-sale investments                | 30   | 427          | 287  |
| Non-current derivatives                       | 30   | 254          | 210  |
| Loans to customers                            | 30   | 58           | 69   |
| Loans to joint ventures and associates        | 30   | 18           | 22   |
| Long-term prepayments                         |      | 145          | 115  |
| Held-to-maturity investments                  | 30   | 1            | 1    |
| Other receivables                             | 30   | 174          | 152  |
|   |      | <b>1,077</b> | 856  |
| Current other investments                     |      |              |      |
| Investments held for trading                  | 30   |              | 16   |
|   |      |              | 16   |

Effective interest rates on loans to customers range from 0 -16.0 per cent.

The other receivables mainly originate from the acquisition of the beer operations of FEMSA and represent a receivable on the Brazilian authorities on which interest is calculated in accordance with Brazilian legislation. Collection of this receivable is expected to be beyond a period of five years. A part of the aforementioned receivable qualifies for indemnification towards FEMSA.

HEINEKEN has interests in several entities where it has less than significant influence. These are classified as available-for-sale investments and valued based on their share price when publicly listed. For investments that are not listed fair values are established using multiples. Debt securities (which are interest-bearing) with a carrying amount of EUR15 million (2015: EUR15 million) are included in available-for-sale investments.

**Sensitivity analysis equity price risk**

As at 31 December 2016, an amount of EUR342 million (2015: EUR98 million) of available-for-sale investments and investments held for trading is listed on stock exchanges. An increase or decrease of 1 per cent in the share price at the reporting date would not result in a material impact on HEINEKEN's financial position.



**Table of Contents****18. Deferred tax assets and liabilities****Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following items:

| In millions of EUR            | Assets       |       | Liabilities    |         | Net          |         |
|-------------------------------|--------------|-------|----------------|---------|--------------|---------|
|                               | 2016         | 2015  | 2016           | 2015    | 2016         | 2015    |
| Property, plant and equipment | 71           | 54    | (547)          | (607)   | (476)        | (553)   |
| Intangible assets             | 56           | 78    | (1,402)        | (1,507) | (1,346)      | (1,429) |
| Investments                   | 126          | 129   | (5)            | (5)     | 121          | 124     |
| Inventories                   | 27           | 28    | (1)            | (2)     | 26           | 26      |
| Loans and borrowings          | 2            | 11    | (32)           | (23)    | (30)         | (12)    |
| Employee benefits             | 346          | 334   | (6)            | (3)     | 340          | 331     |
| Provisions                    | 125          | 93    | (45)           | (42)    | 80           | 51      |
| Other items                   | 413          | 332   | (180)          | (134)   | 233          | 198     |
| Tax losses carry forward      | 391          | 364   |                |         | 391          | 364     |
| Tax assets/(liabilities)      | <b>1,557</b> | 1,423 | <b>(2,218)</b> | (2,323) | <b>(661)</b> | (900)   |
| Set-off of tax                | (546)        | (465) | 546            | 465     |              |         |
| Net tax assets/(liabilities)  | <b>1,011</b> | 958   | <b>(1,672)</b> | (1,858) | <b>(661)</b> | (900)   |

Of the total net deferred tax assets of EUR1,011 million as at 31 December 2016 (2015: EUR958 million), EUR405 million (2015: EUR363 million) is recognised in respect of subsidiaries in various countries where there have been tax losses in the current or preceding period. Management's projections support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise these deferred tax assets.

No deferred tax liability has been recognised in respect of undistributed earnings of subsidiaries, joint ventures and associates, net impact EUR58 million (2015: EUR50 million). This is because HEINEKEN is able to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse in the foreseeable future.

**Tax losses carry forward**

HEINEKEN has tax losses carry forward for an amount of EUR2,370 million as at 31 December 2016 (2015: EUR2,363 million), which expire in the following years:

| In millions of EUR                             | 2016         | 2015         |
|--|--------------|--------------|
| 2016   |              | 24           |
| 2017   | 20           | 26           |
| 2018   | 36           | 57           |
| 2019   | 19           | 16           |
| 2020   | 9            | 11           |
| 2021   | 61           |              |
| After 2021 respectively 2020 but not unlimited | 338          | 513          |
| Unlimited                                      | 1,887        | 1,716        |
|  | <b>2,370</b> | <b>2,363</b> |
| Recognised as deferred tax assets (gross)      | (1,733)      | (1,564)      |
| Unrecognised                                   | <b>637</b>   | 799          |

The unrecognised losses relate to entities for which it is not probable that taxable profit will be available to offset these losses.



**Table of Contents****Movement in deferred tax balances during the year**

| In millions of EUR            | Balance<br>1 January<br>2016 | Changes<br>in<br>consolidation | Effect of<br>movements<br>in<br>foreign<br>exchange | Recognised<br>in<br>income | Recognised<br>in equity | Transfers | Balance<br>31 December<br>2016 |
|-------------------------------|------------------------------|--------------------------------|---|----------------------------|-------------------------|-----------|--------------------------------|
| Property, plant and equipment | (553)                        | 1                              | 52  | 22                         |                         | 2         | (476)                          |
| Intangible assets             | (1,429)                      | (10)                           | 50  | 40                         |                         | 3         | (1,346)                        |
| Investments                   | 124                          |                                | (13)  | 17                         |                         | (7)       | 121                            |
| Inventories                   | 26                           |                                | (1)   | 1                          |                         |           | 26                             |
| Loans and borrowings          | (12)                         |                                | (4)   | (1)                        | (13)                    |           | (30)                           |
| Employee benefits             | 331                          |                                | (28)  | (13)                       | 49                      | 1         | 340                            |
| Provisions                    | 51                           |                                | (4)   | 34                         |                         | (1)       | 80                             |
| Other items                   | 198                          | (3)                            | 24  | 20                         | (10)                    | 4         | 233                            |
| Tax losses carry forward      | 364                          | 4                              | 13  | 3                          |                         | 7         | 391                            |
| Net tax assets/(liabilities)  | (900)                        | (8)                            | 89  | 123                        | 26                      | 9         | (661)                          |

| In millions of EUR            | Balance<br>1 January<br>2015 | Changes<br>in<br>consolidation | Effect of<br>movements<br>in<br>foreign<br>exchange | Recognised<br>in<br>income | Recognised<br>in equity | Transfers | Balance<br>31 December<br>2015 |
|-------------------------------|------------------------------|--------------------------------|---|----------------------------|-------------------------|-----------|--------------------------------|
| Property, plant and equipment | (527)                        | (54)                           | 23  | 6                          |                         | (1)       | (553)                          |
| Intangible assets             | (1,257)                      | (261)                          | (3)   | 91                         |                         | 1         | (1,429)                        |
| Investments                   | 123                          | 7                              | (7)   | 2                          | 1                       | (2)       | 124                            |
| Inventories                   | 19                           | (4)                            |   | 10                         |                         | 1         | 26                             |
| Loans and borrowings          | (9)                          |                                | (13)  | 1                          | 6                       | 3         | (12)                           |
| Employee benefits             | 365                          |                                | 4   | (7)                        | (33)                    | 2         | 331                            |
| Provisions                    | 92                           | 2                              | 1   | (25)                       |                         | (19)      | 51                             |
| Other items                   | 175                          | (12)                           | 93  | 10                         | 1                       | (69)      | 198                            |
| Tax losses carry forward      | 177                          | 125                            | (14)  | 11                         |                         | 65        | 364                            |
| Net tax assets/(liabilities)  | (842)                        | (197)                          | 84  | 99                         | (25)                    | (19)      | (900)                          |

**19. Inventories**

| In millions of EUR                | 2016         | 2015  |
|-----------------------------------|--------------|-------|
| Raw materials                     | 247          | 247   |
| Work in progress                  | 225          | 223   |
| Finished products                 | 479          | 479   |
| Goods for resale                  | 168          | 197   |
| Non-returnable packaging          | 187          | 195   |
| Other inventories and spare parts | 312          | 361   |
|                                   | <b>1,618</b> | 1,702 |

During 2016 inventories were written down by EUR19 million to net realisable value (2015: EUR23 million, 2014: nil).

**20. Trade and other receivables**

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| In millions of EUR                                       | Note | 2016         | 2015  |
|--|------|--------------|-------|
| Trade receivables  |      | 2,283        | 2,169 |
| Other receivables  |      | 701          | 625   |
| Trade receivables due from associates and joint ventures |      | 20           | 27    |
| Derivatives  |      | 48           | 52    |
|  | 30   | <b>3,052</b> | 2,873 |

A net impairment loss of EUR57 million (2015: EUR61 million, 2014: EUR19 million) in respect of trade and other receivables was included in expenses for raw materials, consumables and services.

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**Table of Contents****21. Cash and cash equivalents**

| In millions of EUR                                       | Note | 2016         | 2015*   |
|--|------|--------------|---------|
| Cash and cash equivalents                                | 30   | 3,035        | 3,232   |
| Bank overdrafts and commercial papers                    | 25   | (1,669)      | (2,950) |
| Cash and cash equivalents in the statement of cash flows |      | <b>1,366</b> | 282     |

\* Revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

HEINEKEN has cash pooling arrangements with legally enforceable rights to offset cash and overdraft balances. Where there is an intention to settle on a net basis, cash and overdraft balances relating to the cash pooling arrangements are reported on a net basis in the statement of financial position.

The following table presents the recognised Cash and cash equivalents and Bank overdrafts and commercial papers and the impact of netting on the gross amounts. The column Net amount shows the impact on HEINEKEN's balance sheet if all amounts subject to legal offset rights had been netted.

| In millions of EUR                    | Gross amounts | Gross amounts offset<br>in the statement<br>of<br>financial<br>position | Net amounts presented<br>in the statement<br>of<br>financial<br>position | Amounts subject to<br>legal offset<br>rights | Net amount   |
|---------------------------------------|---------------|---|--|--|--------------|
| Balance as at 31 December 2016        |               |   |  |  |              |
| Assets                                |               |   |  |  |              |
| Cash and cash equivalents             | 3,097         | (62)  | <b>3,035</b>   | (1,489)                                      | <b>1,546</b> |
| Liabilities                           |               |   |  |  |              |
| Bank overdrafts and commercial papers | (1,731)       | 62  | <b>(1,669)</b>   | 1,489  | <b>(180)</b> |
| Balance as at 31 December 2015        |               |   |  |  |              |
| Assets                                |               |   |  |  |              |
| Cash and cash equivalents             | 3,677         | (445)   | 3,232  | (2,408)                                      | 824          |
| Liabilities                           |               |   |  |  |              |
| Bank overdrafts and commercial papers | (3,395)       | 445   | (2,950)  | 2,408  | (542)        |

**22. Capital and reserves****Share capital**

As at 31 December 2016, the issued share capital comprised 576,002,613 ordinary shares (2015: 576,002,613). The ordinary shares have a par value of EUR1.60. All issued shares are fully paid. The share capital as at 31 December 2016 amounted to EUR922 million (2015: EUR922 million).

The Company's authorised capital amounts to EUR2,500 million, consisting of 1,562,500,000 shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by HEINEKEN, rights are suspended.

**Share premium**



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As at 31 December 2016, the share premium amounted to EUR2,701 million (2015: EUR2,701 million).

### **Translation reserve**

The translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations of HEINEKEN (excluding amounts attributable to non-controlling interests) as well as value changes of the hedging instruments in the net investment hedges. HEINEKEN considers this a legal reserve.

### **Hedging reserve**

This reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments where the hedged transaction has not yet occurred. HEINEKEN considers this a legal reserve.

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**Table of Contents****Fair value reserve**

This reserve comprises the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired. HEINEKEN considers this a legal reserve.

**Other legal reserves**

These reserves relate to the share of profit of joint ventures and associates over the distribution of which HEINEKEN does not have control. The movement in these reserves reflects retained earnings of joint ventures and associates minus dividends received. In case of a legal or other restriction which means that retained earnings of subsidiaries cannot be freely distributed, a legal reserve is recognised for the restricted part. Furthermore, part of the reserve comprises a legal reserve for capitalised development costs.

**Reserve for own shares**

The reserve for the Company's own shares comprises the cost of the Company's shares held by HEINEKEN. As at 31 December 2016, HEINEKEN held 6,321,833 of the Company's shares (2015: 6,318,958).

**LTV**

During the period from 1 January to 31 December 2016, HEINEKEN acquired 505,000 shares for an amount of EUR39 million for delivery against LTV and other share-based payment plans.

**Dividends**

The following dividends were declared and paid by HEINEKEN:

| In millions of EUR  | 2016       | 2015 | 2014 |
|---|------------|------|------|
| Final dividend previous year EUR0.86, respectively EUR0.74 per qualifying ordinary share  | 490        | 425  | 305  |
| Interim dividend current year EUR0.52, respectively EUR0.44 per qualifying ordinary share | 296        | 251  | 207  |
| Total dividend declared and paid  | <b>786</b> | 676  | 512  |

For 2016, a payment of a total cash dividend of EUR1.34 per share (2015: EUR1.30) will be proposed at the AGM. If approved, a final dividend of EUR0.82 per share will be paid on 3 May 2017, as an interim dividend of EUR0.52 per share was paid on 11 August 2016. The payment will be subject to 15 per cent Dutch withholding tax.

After the balance sheet date, the Executive Board proposed the following appropriation of profit. The dividends, taking into account the interim dividends declared and paid, have not been provided for.

| In millions of EUR   | 2016       | 2015 | 2014 |
|--|------------|------|------|
| Dividend per qualifying ordinary share EUR1.34 (2015: EUR1.30) | <b>763</b> | 741  | 632  |

**Non-controlling interests**

The non-controlling interests (NCI) relate to minority stakes held by third parties in HEINEKEN consolidated subsidiaries. The total non-controlling interest as at 31 December 2016 amounted to EUR1,335 million (2015: EUR1,535 million).

**23. Earnings per share****Basic earnings per share**

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The calculation of basic earnings per share for the period ended 31 December 2016 is based on the profit attributable to ordinary shareholders of the Company (net profit) of EUR1,540 million (2015: EUR1,892 million, 2014: EUR1,516 million) and a weighted average number of ordinary shares basic outstanding during the year ended 31 December 2016 of 569,737,210 (2015: 572,292,454, 2014: 574,945,645). Basic earnings per share for the year amounted to EUR2.70 (2015: EUR3.31, 2014: EUR2.64).

### **Diluted earnings per share**

The calculation of diluted earnings per share for the period ended 31 December 2016 is based on the profit attributable to ordinary shareholders of the Company (net profit) of EUR1,540 million (2015: EUR1,892 million, 2014: EUR1,516 million) and a weighted average number of ordinary shares basic outstanding after adjustment for the dilutive effect of share based payment plan obligations of 570,370,392 (2015: 572,944,188, 2014: 576,002,613). Diluted earnings per share for the year amounted to EUR2.70 (2015: EUR3.30, 2014: EUR2.63).

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**Table of Contents****Weighted average number of shares basic and diluted**

|   | 2016               | 2015        | 2014        |
|---|--------------------|-------------|-------------|
| Total number of shares issued                           | 576,002,613        | 576,002,613 | 576,002,613 |
| Effect of own shares held                               | (6,265,403)        | (3,710,159) | (1,056,968) |
| Weighted average number of basic shares for the year    | <b>569,737,210</b> | 572,292,454 | 574,945,645 |
| Dilutive effect of share based payment plan obligations | 633,182            | 651,734     | 1,056,968   |
| Weighted average number of diluted shares for the year  | <b>570,370,392</b> | 572,944,188 | 576,002,613 |

**24. Income tax on other comprehensive income**

| In millions of EUR  | 2016                    |           | 2015                    |                         | 2014 |                         |                         |                         |
|---|-------------------------|-----------|-------------------------|-------------------------|------|-------------------------|-------------------------|-------------------------|
|   | Amount<br>before<br>tax | Tax       | Amount<br>net of<br>tax | Amount<br>before<br>tax | Tax  | Amount<br>net of<br>tax | Amount<br>before<br>tax | Amount<br>net of<br>tax |
| Other comprehensive income  |                         |           |                         |                         |      |                         |                         |                         |
| Actuarial gains and losses  | (301)                   | 49        | (252)                   | 128                     | (33) | 95                      | (440)                   | 96                      |
| Currency translation differences  | (935)                   | 27        | (908)                   | (120)                   | 77   | (43)                    | 590                     | 107                     |
| Recycling of currency translation differences to profit or loss             |                         |           |                         | 129                     |      | 129                     |                         |                         |
| Effective portion of net investment hedges                                  | 44                      |           | 44                      | 15                      |      | 15                      | (6)                     | 1                       |
| Effective portion of changes in fair value of cash flow hedges              | 18                      | (12)      | 6                       | (3)                     | 26   | 23                      | (108)                   | 9                       |
| Effective portion of cash flow hedges transferred to profit or loss         | 53                      | (12)      | 41                      | 36                      | (12) | 24                      | (5)                     | 2                       |
| Net change in fair value available-for-sale investments                     | 140                     |           | 140                     | 46                      | (3)  | 43                      | (4)                     | 3                       |
| Recycling of fair value of available-for-sale investments to profit or loss |                         |           |                         | (16)                    |      | (16)                    |                         |                         |
| Share of other comprehensive income of associates/joint ventures            |                         |           |                         | 7                       |      | 7                       | (7)                     |                         |
|   | <b>(981)</b>            | <b>52</b> | <b>(929)</b>            | 222                     | 55   | 277                     | 20                      | 218                     |

**25. Loans and borrowings**

This note provides information about the contractual terms of HEINEKEN's interest-bearing loans and borrowings. For more information about HEINEKEN's exposure to interest rate risk and foreign currency risk, refer to note 30.

**Non-current liabilities**

| In millions of EUR                             | Note | 2016          | 2015   |
|--|------|---------------|--------|
| Unsecured bond issues                          |      | 9,432         | 9,269  |
| Unsecured bank loans                           |      | 239           | 126    |
| Secured bank loans                             |      | 84            | 38     |
| Other non-current interest-bearing liabilities |      | 1,165         | 1,193  |
| Non-current interest-bearing liabilities       |      | <b>10,920</b> | 10,626 |
| Non-current non-interest-bearing liabilities   |      | 24            |        |
| Non-current derivatives                        |      | 10            | 32     |
| Non-current liabilities                        |      | <b>10,954</b> | 10,658 |



**Table of Contents****Current interest-bearing liabilities**

| In millions of EUR   | Note | 2016         | 2015*        |
|--|------|--------------|--------------|
| Current portion of unsecured bonds issued                                |      | 1,251        | 400          |
| Current portion of unsecured bank loans                                  |      | 4            | 354          |
| Current portion of secured bank loans                                    |      | 10           | 8            |
| Current portion of other non-current interest-bearing liabilities        |      | 94           | 40           |
| <b>Total current portion of non-current interest-bearing liabilities</b> |      | <b>1,359</b> | <b>802</b>   |
| Deposits from third parties (mainly employee loans)                      |      | 622          | 595          |
|  |      | <b>1,981</b> | <b>1,397</b> |
| Bank overdrafts and commercial papers                                    | 21   | 1,669        | 2,950        |
| <b>Current interest-bearing liabilities</b>                              |      | <b>3,650</b> | <b>4,347</b> |

\* Revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

For further details regarding the interest-bearing liabilities refer to terms and debt repayment schedule included in this note.

**Net interest-bearing debt position**

| In millions of EUR  | Note  | 2016          | 2015*         |
|---|-------|---------------|---------------|
| Non-current interest-bearing liabilities                    |       | 10,920        | 10,626        |
| Current portion of non-current interest-bearing liabilities |       | 1,359         | 802           |
| Deposits from third parties (mainly employee deposits)      |       | 622           | 595           |
|   |       | <b>12,901</b> | <b>12,023</b> |
| Bank overdrafts and commercial papers                       | 21    | 1,669         | 2,950         |
| Market value of cross-currency interest rate swaps          | 30    | (242)         | (215)         |
|   |       | <b>14,328</b> | <b>14,758</b> |
| Cash, cash equivalents and current other investments        | 17/21 | (3,035)       | (3,248)       |
| <b>Net interest-bearing debt position</b>                   |       | <b>11,293</b> | <b>11,510</b> |

\* Revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

**Non-current liabilities**

| In millions of EUR                    | Unsecured bond issues | Unsecured bank loans | Secured bank loans | Other non-current interest-bearing liabilities | Non-current derivatives | Non-current non-interest-bearing liabilities | Total         |
|---------------------------------------|-----------------------|----------------------|--------------------|--|-------------------------|--|---------------|
| Balance as at 1 January 2016          | <b>9,269</b>          | <b>126</b>           | <b>38</b>          | <b>1,193</b>                                   | <b>32</b>               |  | <b>10,658</b> |
| Consolidation changes                 |                       |                      |                    | 16   |                         |  | 16            |
| Effect of movements in exchange rates | 51                    | 5                    | 2                  | 18   | (21)                    | 33   | 88            |
| Transfers to current liabilities      | (1,173)               | 14                   | (6)                | (109)  | (2)                     | (2)  | (1,278)       |
| Proceeds                              | 1,303                 | 264                  | 57                 | 30   | 1                       |  | 1,655         |
| Repayments                            | (18)                  | (170)                | (7)                | (18)   |                         | (7)  | (220)         |
| Other                                 |                       |                      |                    | 35   |                         |  | 35            |
| Balance as at 31 December 2016        | <b>9,432</b>          | <b>239</b>           | <b>84</b>          | <b>1,165</b>                                   | <b>10</b>               | <b>24</b>                                    | <b>10,954</b> |



**Table of Contents****Terms and debt repayment schedule**

Terms and conditions of outstanding non-current and current loans and borrowings were as follows:

| In millions of EUR | Category                         | Currency | Nominal<br>interest rate% | Repayment | Carrying<br>amount<br>2016 | Face value<br>2016 | Carrying<br>amount<br>2015 | Face value<br>2015 |
|--------------------|----------------------------------|----------|---------------------------|-----------|----------------------------|--------------------|----------------------------|--------------------|
| Unsecured bond     | issue under EMTN<br>programme    | EUR      | 4.6                       | 2016      |                            |                    | 400                        | 400                |
| Unsecured bond     | issue under EMTN<br>programme    | SGD      | 1.4                       | 2017      | 66                         | 66                 | 64                         | 65                 |
| Unsecured bond     | issue under EMTN<br>programme    | EUR      | 1.3                       | 2018      | 100                        | 100                | 100                        | 100                |
| Unsecured bond     | issue under EMTN<br>programme    | SGD      | 2.2                       | 2018      | 62                         | 62                 | 62                         | 62                 |
| Unsecured bond     | issue under EMTN<br>programme    | USD      | 1.5                       | 2019      | 189                        | 190                | 183                        | 184                |
| Unsecured bond     | issue under EMTN<br>programme    | EUR      | 2.5                       | 2019      | 847                        | 850                | 845                        | 850                |
| Unsecured bond     | issue under EMTN<br>programme    | EUR      | 2.1                       | 2020      | 997                        | 1,000              | 997                        | 1,000              |
| Unsecured bond     | issue under EMTN<br>programme    | EUR      | 2.0                       | 2021      | 498                        | 500                | 497                        | 500                |
| Unsecured bond     | issue under EMTN<br>programme    | EUR      | 1.3                       | 2021      | 498                        | 500                | 497                        | 500                |
| Unsecured bond     | issue under EMTN<br>programme    | USD      | 3.3                       | 2022      | 189                        | 190                | 183                        | 184                |
| Unsecured bond     | issue under EMTN<br>programme    | EUR      | 1.7                       | 2023      | 140                        | 140                | 140                        | 140                |
| Unsecured bond     | issue under EMTN<br>programme    | EUR      | 3.5                       | 2024      | 497                        | 500                | 497                        | 500                |
| Unsecured bond     | issue under EMTN<br>programme    | EUR      | 1.5                       | 2024      | 454                        | 460                | 454                        | 460                |
| Unsecured bond     | issue under EMTN<br>programme    | EUR      | 2.9                       | 2025      | 743                        | 750                | 742                        | 750                |
| Unsecured bond     | issue under EMTN<br>programme    | EUR      | 2.0                       | 2025      | 224                        | 225                | 224                        | 225                |
| Unsecured bond     | issue under EMTN<br>programme    | EUR      | 3.5                       | 2029      | 199                        | 200                | 199                        | 200                |
| Unsecured bond     | issue under EMTN<br>programme    | EUR      | 3.3                       | 2033      | 180                        | 180                | 179                        | 180                |
| Unsecured bond     | issue under EMTN<br>programme    | EUR      | 2.6                       | 2033      | 92                         | 100                | 91                         | 100                |
| Unsecured bond     | issue under EMTN<br>programme    | EUR      | 3.5                       | 2043      | 75                         | 75                 | 75                         | 75                 |
| Unsecured bond     | issue under EMTN<br>programme    | EUR      | 1.0                       | 2026      | 790                        | 800                |                            |                    |
| Unsecured bond     | issue under EMTN<br>programme    | EUR      | 1.4                       | 2027      | 497                        | 500                |                            |                    |
| Unsecured bond     | issue under APB MTN<br>programme | SGD      | 3.0-4.0                   | 2020-2022 | 25                         | 25                 | 25                         | 25                 |
| Unsecured bond     | issue under 144A/RegS            | USD      | 1.4                       | 2017      | 1,185                      | 1,186              | 1,146                      | 1,148              |
| Unsecured bond     | issue under 144A/RegS            | USD      | 3.4                       | 2022      | 709                        | 712                | 685                        | 689                |
| Unsecured bond     | issue under 144A/RegS            | USD      | 2.8                       | 2023      | 945                        | 949                | 915                        | 919                |
| Unsecured bond     | issue under 144A/RegS            | USD      | 4.0                       | 2042      | 465                        | 474                | 450                        | 459                |



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|                                    |                           |         |         |         |               |               |        |        |
|------------------------------------|---------------------------|---------|---------|---------|---------------|---------------|--------|--------|
| Unsecured bond                     | n.a.                      | EUR     | 3.5-4.5 | 2020    | 17            | 17            | 19     | 19     |
| Unsecured bank loans               | bank facilities           | EUR     | 4.8     | 2016    |               |               | 207    | 207    |
| Unsecured bank loans               | bank facilities           | NGN     | 15-17   | 2021    | 51            | 51            | 14     | 16     |
| Unsecured bank loans               | German Schuldschein notes | EUR     | 1.8-6.2 | 2016    |               |               | 111    | 111    |
| Unsecured bank loans               | bank facilities           | MYR     | 3.5-4.5 | 2016    |               |               | 19     | 19     |
| Unsecured bank loans               | bank facilities           | ZAR     | 8.6     | 2018    | 112           | 112           | 71     | 71     |
| Unsecured bank loans               | various                   | various | various | various | 80            | 80            | 58     | 58     |
| Secured bank loans                 | bank facilities           | XOF     | 7.0     | 2026    | 57            | 56            |        |        |
| Secured bank loans                 | bank facilities           | ETB     | 9.5     | 2021    | 20            | 20            | 22     | 22     |
| Secured bank loans                 | various                   | various | various | various | 17            | 20            | 24     | 25     |
| Other interest-bearing liabilities | 2011 US private placement | GBP     | 7.3     | 2016    |               |               | 34     | 34     |
| Other interest-bearing liabilities | 2008 US private placement | USD     | 2.8     | 2017    | 85            | 85            | 83     | 83     |
| Other interest-bearing liabilities | 2008 US private placement | GBP     | 7.2     | 2018    | 37            | 37            | 44     | 44     |
| Other interest-bearing liabilities | 2010 US private placement | USD     | 4.6     | 2018    | 688           | 688           | 665    | 666    |
| Other interest-bearing liabilities | 2008 US private placement | USD     | 6.3     | 2018    | 369           | 370           | 357    | 358    |
| Other interest-bearing liabilities | facilities from JVs       | EUR     | various | various | 4             | 4             | 17     | 17     |
| Other interest-bearing liabilities | various                   | various | various | various | 76            | 76            | 33     | 33     |
| Deposits from third parties        | n.a.                      | various | various | various | 622           | 622           | 595    | 595    |
|                                    |                           |         |         |         | <b>12,901</b> | <b>12,972</b> | 12,023 | 12,093 |

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**Financing headroom**

As at 31 December 2016, no amounts were drawn on the existing revolving credit facility of EUR2,500 million. This revolving credit facility was extended by one year in May 2016 and matures in 2021. The committed financing headroom at Group level was EUR3,112 million as at 31 December 2016 and consisted of an undrawn revolving credit facility and centrally available cash, minus commercial paper in issue at Group level.

**Incurrence covenant**

HEINEKEN has an incurrence covenant in some of its financing facilities. This incurrence covenant is calculated by dividing net debt (excluding the market value of cross-currency interest rate swaps) by EBITDA (beia) (both based on proportional consolidation of joint ventures and including acquisitions made in 2016 on a pro-forma basis). As at 31 December 2016 this ratio was 2.3 (2015: 2.4, 2014: 2.4). If the ratio would be beyond a level of 3.5, the incurrence covenant would prevent HEINEKEN from conducting further significant debt financed acquisitions.

**Table of Contents****26. Employee benefits**

| In millions of EUR                                    | 2016         | 2015         |
|---|--------------|--------------|
| Present value of unfunded defined benefit obligations | 305          | 329          |
| Present value of funded defined benefit obligations   | 8,865        | 8,544        |
| Total present value of defined benefit obligations    | <b>9,170</b> | <b>8,873</b> |
| Fair value of defined benefit plan assets             | (7,815)      | (7,661)      |
| Present value of net obligations                      | <b>1,355</b> | 1,212        |
| Asset ceiling items                                   | 3            | 4            |
| Recognised liability for defined benefit obligations  | <b>1,358</b> | 1,216        |
| Other long-term employee benefits                     | 62           | 73           |
|   | <b>1,420</b> | 1,289        |

HEINEKEN makes contributions to defined benefit plans that provide pension benefits for employees upon retirement in a number of countries. The defined benefit plans in the Netherlands and the UK combined cover 88.0 per cent of the total defined benefit plan assets (2015: 88.4 per cent), 84.1 per cent of the present value of the defined benefit obligations (2015: 83.9 per cent) and 61.2 per cent of the present value of net obligations (2015: 55.2 per cent) as at 31 December 2016.

HEINEKEN provides employees in the Netherlands with an average pay pension plan based on earnings up to the legal tax limit. Indexation of accrued benefits is conditional on the funded status of the pension fund. HEINEKEN pays contributions to the fund up to a maximum level agreed with the Board of the pension fund and has no obligation to make additional contributions in case of a funding deficit. In 2016, HEINEKEN's cash contribution to the Dutch pension plan was at the maximum level. The same level is expected to be paid in 2017.

HEINEKEN's UK plan (Scottish & Newcastle pension plan – SNPP) was closed to future accrual in 2010 and the liabilities thus relate to past service before plan closure. Based on the triennial review finalised in early 2016, HEINEKEN has renewed the funding plan (until 31 May 2023) including an annual Company contribution of GBP37.5 million in 2017, thereafter increasing with GBP1.7 million per year. Deficit payments as of 2019 will be reviewed and may be replaced following the next triennial valuation which will take place in 2019. As at 31 December 2016, the IAS 19 present value of the net obligations of SNPP represents a GBP581 million (EUR679 million) deficit. No additional liability has to be recognised as the net present value of the minimum funding requirement does not exceed the net obligation.

Other countries where HEINEKEN offers a defined benefit plan to (former) employees include: Austria (closed in 2007 to new entrants), Belgium, France, Greece (closed in 2014 to new entrants), Ireland (closed in 2012 to all future accrual), Jamaica (to be closed in 2017 to all future accrual), Mexico (plan changed to hybrid defined contribution for majority of employees in 2014), Nigeria (closed to new entrants in 2007), Portugal, Spain (closed to management in 2010) and Switzerland.

The vast majority of benefit payments are from pension funds that are held in trusts (or equivalent); however, there is a small portion where HEINEKEN meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by Trustee Boards composed of HEINEKEN representatives and independent and/or member representation, in accordance with local regulations and practice in each country. The relationship and division of responsibility between HEINEKEN and the Trustee Board (or equivalent) including investment decisions and contribution schedules are carried out in accordance with the plan's regulations.

In other countries, retirement benefits are provided to employees via defined contribution plans.

Other long-term employee benefits mainly relate to long-term bonus plans, termination benefits, medical plans and jubilee benefits.

**Table of Contents****Movement in net defined benefit obligation**

The movement in the net defined benefit obligation over the year is as follows:

| In millions of EUR                              | Note | Present value of defined benefit obligations |       | Fair value of defined benefit plan assets |         | Present value of net obligations |       |
|---|------|--|-------|---|---------|----------------------------------|-------|
|   |      | 2016   | 2015  | 2016                                      | 2015    | 2016                             | 2015  |
| Balance as at 1 January                         |      | <b>8,873</b>                                 | 8,909 | <b>(7,661)</b>                            | (7,547) | <b>1,212</b>                     | 1,362 |
| Included in profit or loss                      |      |  |       |   |         |                                  |       |
| Current service cost                            |      | 86   | 83    |   |         | 86                               | 83    |
| Past service cost/(credit)                      |      | 1  | (9)   |   |         | 1                                | (9)   |
| Administration expense                          |      |  |       | 2   | 6       | 2                                | 6     |
| Effect of any settlement                        |      | (1)  | (2)   |   |         | (1)                              | (2)   |
| Expense recognised in personnel expenses        | 10   | <b>86</b>                                    | 72    | <b>2</b>                                  | 6       | <b>88</b>                        | 78    |
| Interest expense/(income)                       | 12   | 257  | 258   | (217)                                     | (214)   | 40                               | 44    |
|   |      | <b>343</b>                                   | 330   | <b>(215)</b>                              | (208)   | <b>128</b>                       | 122   |
| Included in OCI                                 |      |  |       |   |         |                                  |       |
| Remeasurement loss/(gain):                      |      |  |       |   |         |                                  |       |
| Actuarial loss/(gain) arising from              |      |  |       |   |         |                                  |       |
| Demographic assumptions                         |      | 20   | (62)  |   |         | 20                               | (62)  |
| Financial assumptions                           |      | 1,080  | (191) |   |         | 1,080                            | (191) |
| Experience adjustments                          |      | (139)  | (41)  |   |         | (139)                            | (41)  |
| Return on plan assets excluding interest income |      |  |       | (660)                                     | 166     | (660)                            | 166   |
| Effect of movements in exchange rates           |      | (674)  | 259   | 557                                       | (236)   | (117)                            | 23    |
|   |      | <b>287</b>                                   | (35)  | <b>(103)</b>                              | (70)    | <b>184</b>                       | (105) |
| Other   |      |  |       |   |         |                                  |       |
| Changes in consolidation and reclassification   |      | (1)  | 13    |   |         | (1)                              | 13    |
| Contributions paid:                             |      |  |       |   |         |                                  |       |
| By the employer                                 |      |  |       | (168)                                     | (180)   | (168)                            | (180) |
| By the plan participants                        |      | 23   | 26    | (23)                                      | (26)    |                                  |       |
| Benefits paid                                   |      | (355)  | (370) | 355                                       | 370     |                                  |       |
|   |      | <b>(333)</b>                                 | (331) | <b>164</b>                                | 164     | <b>(169)</b>                     | (167) |
| Balance as at 31 December                       |      | <b>9,170</b>                                 | 8,873 | <b>(7,815)</b>                            | (7,661) | <b>1,355</b>                     | 1,212 |

**Table of Contents****Defined benefit plan assets**

| In millions of EUR                   | 2016         |              |              | 2015   |          | Total   |
|--------------------------------------|--------------|--------------|--------------|--------|----------|---------|
|                                      | Quoted       | Unquoted     | Total        | Quoted | Unquoted |         |
| <b>Equity instruments:</b>           |              |              |              |        |          |         |
| Europe                               | 1,092        |              | 1,092        | 746    |          | 746     |
| Northern America                     | 403          |              | 403          | 511    |          | 511     |
| Japan                                | 113          |              | 113          | 212    |          | 212     |
| Asia other                           | 47           |              | 47           | 153    |          | 153     |
| Other                                | 478          | 246          | 724          | 249    | 1        | 250     |
|                                      | <b>2,133</b> | <b>246</b>   | <b>2,379</b> | 1,871  | 1        | 1,872   |
| <b>Debt instruments:</b>             |              |              |              |        |          |         |
| Corporate bonds investment grade     | 2,673        | 1,537        | 4,210        | 2,791  | 1,355    | 4,146   |
| Corporate bonds non-investment grade | 297          | 102          | 399          | 131    | 178      | 309     |
|                                      | <b>2,970</b> | <b>1,639</b> | <b>4,609</b> | 2,922  | 1,533    | 4,455   |
| Derivatives                          | 10           | (1,389)      | (1,379)      | 16     | (1,229)  | (1,213) |
| Properties and real estate           | 230          | 362          | 592          | 253    | 267      | 520     |
| Cash and cash equivalents            | 180          | 116          | 296          | 195    | 47       | 242     |
| Investment funds                     | 711          | 350          | 1,061        | 1,219  | 292      | 1,511   |
| Other plan assets                    | 3            | 254          | 257          | 4      | 270      | 274     |
|                                      | <b>1,134</b> | <b>(307)</b> | <b>827</b>   | 1,687  | (353)    | 1,334   |
| Balance as at 31 December            | <b>6,237</b> | <b>1,578</b> | <b>7,815</b> | 6,480  | 1,181    | 7,661   |

The HEINEKEN pension funds monitor the mix of debt and equity securities in their investment portfolios based on market expectations. Material investments within the portfolio are managed on an individual basis. Through its defined benefit pension plans, HEINEKEN is exposed to a number of risks, the most significant which are detailed below:

**Asset volatility**

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If the return on the plan assets is less than the return on the liabilities implied by this assumption, this will create a deficit. Both the Netherlands and the UK plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long term, while providing volatility and risk in the short term.

In the Netherlands, an Asset-Liability Matching (ALM) study is performed at least on a triennial basis. The ALM study is the basis for the strategic investment policies and the (long-term) strategic investment mix. This resulted in a strategic asset mix comprising 38 per cent equity securities, 40 per cent bonds, 7 per cent property and real estate and 15 per cent other investments. The objective is to hedge currency risk on the US dollar, Japanese yen and British pound for 50 per cent of the equity exposure in the strategic investment mix.

In the UK, an Asset-Liability Matching study is performed at least on a triennial basis. The ALM study is the basis for the strategic investment policies and the (long-term) strategic investment mix. This resulted in a strategic asset mix comprising 40 per cent of plan assets in liability driven investments, 19 per cent in absolute return, 20 per cent in equities (global and emerging markets), 5.5 per cent in alternatives and 15.5 per cent in private markets. The objective is to hedge 100 per cent of currency risk on developed non-GBP equity market exposures in the strategic investment mix.

**Interest rate risk**

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans bond holdings.

In the Netherlands, interest rate risk is partly managed through fixed income investments. These investments match the liabilities for 22.9 per cent (2015: 22.7 per cent). In the UK, interest rate risk is partly managed through the use of a mixture of fixed income investments and interest rate swap instruments. These investments and instruments match 28 per cent of the interest rate sensitivity of the total liabilities (2015: 24.7 per cent).



**Table of Contents****Inflation risk**

Some of the pension obligations are linked to inflation. Higher inflation will lead to higher liabilities, although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation. The majority of the plan assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will increase the deficit.

HEINEKEN provides employees in the Netherlands with an average pay pension plan, whereby indexation of accrued benefits is conditional on the funded status of the pension fund. In the UK, inflation is partly managed through the use of a mixture of inflation-linked derivative instruments. These instruments match 41 per cent of the inflation-linked liabilities (2015: 39 per cent).

**Life expectancy**

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant in the UK plan, where inflation-linked increases result in higher sensitivity to changes in life expectancy. In 2015, the Trustee of SNPP implemented a longevity hedge to remove the risk of a higher increase in life expectancy than anticipated for current pensioners.

**Principal actuarial assumptions as at the balance sheet date**

Based on the significance of the Dutch and UK pension plans compared with the other plans, the table below only includes the major actuarial assumptions for those two plans as at 31 December:

| In per cent                     | The Netherlands |      | UK*  |      |
|---------------------------------|-----------------|------|------|------|
|                                 | 2016            | 2015 | 2016 | 2015 |
| Discount rate as at 31 December | 1.5             | 2.3  | 2.7  | 3.9  |
| Future salary increases         | 2.0             | 2.0  |      |      |
| Future pension increases        | 0.4             | 0.9  | 3.1  | 3.0  |

\* The UK plan closed for future accrual, leading to certain assumptions being equal to zero. For the other defined benefit plans, the following actuarial assumptions apply at 31 December:

| In per cent                     | Europe  |         | Americas |      | Africa, Middle East & Eastern Europe |      |
|---------------------------------|---------|---------|----------|------|--------------------------------------|------|
|                                 | 2016    | 2015    | 2016     | 2015 | 2016                                 | 2015 |
| Discount rate as at 31 December | 0.6-6.8 | 0.8-2.3 | 7.0-7.6  | 7.0  | 1.5-15.5                             | 12.0 |
| Future salary increases         | 0.0-3.5 | 0.0-3.5 | 0.0-4.5  | 4.5  | 0.0-5.0                              | 7.5  |
| Future pension increases        | 0.0-1.5 | 0.0-1.2 | 0.0-3.5  | 3.5  | 0.0-3.5                              | 3.0  |
| Medical cost trend rate         | 0.0-4.5 | 0.0-4.5 | 0.0-5.0  | 5.1  | 0.0-5.0                              | 4.5  |

Assumptions regarding future mortality rates are based on published statistics and mortality tables. For the Netherlands, the rates are obtained from the AG-Prognosetafel 2016, fully generational. Correction factors from Towers Watson are applied on these rates. For the UK, the future mortality rates are obtained by applying the Continuous Mortality Investigation 2014 projection model with an assumed long term rate of 1.5 per cent p.a. to the Self-Administered Pension Schemes Series 2 (year of birth) tables with a 112 per cent (male)/109 per cent (female) weighting for pensioners and a 105 per cent (male)/106 per cent (female) weighting for non-pensioners.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 18 years.

HEINEKEN expects the 2017 contributions to be paid for the defined benefit plans to be in line with 2016.

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**Table of Contents****Sensitivity analysis**

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

|   | 31 December 2016                      |                           | 31 December 2015                      |                           |
|---|---------------------------------------|---------------------------|---------------------------------------|---------------------------|
|   | <b>Increase<br/>in<br/>assumption</b> | Decrease in<br>assumption | <b>Increase<br/>in<br/>assumption</b> | Decrease in<br>assumption |
| Effect in millions of EUR               |                                       |                           |                                       |                           |
| Discount rate (0.5% movement)           | (695)                                 | 798                       | (677)                                 | 771                       |
| Future salary growth (0.25% movement)   | 23                                    | (22)                      | 21                                    | (20)                      |
| Future pension growth (0.25% movement)  | 332                                   | (309)                     | 300                                   | (292)                     |
| Medical cost trend rate (0.5% movement) | 5                                     | (4)                       | 6                                     | (5)                       |
| Life expectancy (1 year)                | 300                                   | (301)                     | 287                                   | (290)                     |

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

**Table of Contents****27. Share-based payments Long-Term Variable Award**

HEINEKEN has a performance-based share plan (Long-Term Variable award (LTV)) for the Executive Board and senior management. Under this LTV plan, share rights are conditionally awarded to incumbents on an annual basis. The vesting of these rights is subject to the performance of Heineken N.V. on specific internal performance conditions and continued service over a three-year period.

The performance conditions for LTV 2014-2016, LTV 2015-2017 and LTV 2016-2018 are the same for the Executive Board and senior management and comprise solely of internal financial measures, being Organic Revenue Growth 2014-2016), Organic EBIT beia growth, Earnings Per Share (EPS) beia growth and Free Operating Cash Flow.

At target performance, 100 per cent of the awarded share rights vest. At threshold performance, 50 per cent of the awarded share rights vest. At maximum performance, 200 per cent of the awarded share rights vest for the Executive Board as well as senior managers contracted by the US, Mexico, Brazil and Singapore, and 175 per cent vest for all other senior managers.

The performance period for the aforementioned plans are:

| LTV       | Performance period start | Performance period end |
|-----------|--------------------------|------------------------|
| 2014-2016 | 1 January 2014           | 31 December 2016       |
| 2015-2017 | 1 January 2015           | 31 December 2017       |
| 2016-2018 | 1 January 2016           | 31 December 2018       |

The vesting date for the Executive Board is shortly after the publication of the annual results of 2016, 2017 and 2018 respectively and for senior management on 1 April 2017, 2018 and 2019 respectively.

As HEINEKEN will withhold the tax related to vesting on behalf of the individual employees, the number of Heineken N.V. shares to be received will be a net number. The share rights are not dividend-bearing during the performance period. The fair value has been adjusted for expected dividends by applying a discount based on the dividend policy and historical dividend payouts, during the vesting period.

The terms and conditions of the share rights granted are as follows:

| Grant date/employees entitled                     | Number*        | Based on share price |
|---|----------------|----------------------|
| Share rights granted to Executive Board in 2014   | 51,702         | 49.08                |
| Share rights granted to senior management in 2014 | 597,744        | 49.08                |
| Share rights granted to Executive Board in 2015   | 54,903         | 58.95                |
| Share rights granted to senior management in 2015 | 534,298        | 58.95                |
| Share rights granted to Executive Board in 2016   | <b>34,278</b>  | <b>78.77</b>         |
| Share rights granted to senior management in 2016 | <b>398,850</b> | <b>78.77</b>         |

\* The number of shares is based on at target payout performance (100 per cent).

Under the LTV 2013-2015, a total of 58,447 (gross) shares vested for the Executive Board and 726,789 (gross) shares vested for senior management. The number of shares vested for the Executive Board relates to Mr. Jean-François van Boxmeer, as Mr. René Hooft Graafland was no longer member of the Executive Board at vesting and Ms. Laurence Debroux received LTI as per LTIP 2015-2017.

Based on the performance conditions, it is expected that approximately 786,093 shares of the LTV 2014-2016 will vest in 2017 for senior management and the Executive Board.

The number, as corrected for the expected performance for the various awards, and weighted average share price per share under the LTV of senior management and Executive Board are as follows:

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|                               | Weighted average<br>share price<br>2016 | Number of share<br>rights 2016 | Weighted average<br>share price<br>2015 | Number of share<br>rights 2015 |
|-------------------------------|---|--------------------------------|---|--------------------------------|
| Outstanding as at 1 January   | 52.26                                   | 1,854,782                      | 44.42                                   | 2,401,418                      |
| Granted during the year       | 78.77                                   | 433,128                        | 58.95                                   | 589,201                        |
| Forfeited during the year     | 58.33                                   | (121,026)                      | 50.95                                   | (235,289)                      |
| Vested during the year        | 50.47                                   | (785,236)                      | 35.89                                   | (891,409)                      |
| Performance adjustment        |   | 491,699                        |   | (9,139)                        |
| Outstanding as at 31 December | 60.40                                   | 1,873,347                      | 52.26                                   | 1,854,782                      |

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Under the extraordinary share plans for senior management 24,550 shares were granted and 7,850 (gross) shares vested. These extraordinary grants only have a service condition and vest between one and five years. The expenses relating to these additional grants are recognised in profit or loss during the vesting period. Expenses recognised in 2016 are EUR1.3 million (2015: EUR1.0 million, 2014: EUR1.2 million).

Matching shares, extraordinary shares and retention share awards granted to the Executive Board and are disclosed in note 33.

**Personnel expenses**

| In millions of EUR                             | Note | 2016 | 2015 | 2014 |
|--|------|------|------|------|
| Share rights granted in 2012                   |      |      | 1    | 20   |
| Share rights granted in 2013                   |      |      | 12   | 17   |
| Share rights granted in 2014                   |      | 16   | 10   | 11   |
| Share rights granted in 2015                   |      | 12   | 10   |      |
| Share rights granted in 2016                   |      | 14   |      |      |
| Total expense recognised in personnel expenses | 10   | 42   | 33   | 48   |

**28. Provisions**

| In millions of EUR                    | Restructuring | Onerous contracts | Claims and litigation | Other | Total |
|---------------------------------------|---------------|-------------------|-----------------------|-------|-------|
| Balance as at 1 January 2016          | 132           | 54                | 122                   | 166   | 474   |
| Changes in consolidation              |               |                   |                       | 4     | 4     |
| Provisions made during the year       | 38            | 23                | 34                    | 66    | 161   |
| Provisions used during the year       | (63)          | (8)               | (1)                   | (7)   | (79)  |
| Provisions reversed during the year   | (7)           | (13)              | (26)                  | (53)  | (99)  |
| Effect of movements in exchange rates | (1)           | (6)               | 18                    | (15)  | (4)   |
| Unwinding of discounts                |               |                   | 2                     | (3)   | (1)   |
| Balance as at 31 December 2016        | 99            | 50                | 149                   | 158   | 456   |
| Non-current                           | 41            | 38                | 129                   | 94    | 302   |
| Current                               | 58            | 12                | 20                    | 64    | 154   |

**Restructuring**

The provision for restructuring of EUR99 million mainly relates to restructuring programmes in Spain and the Netherlands.

**Claims and litigation**

The provision for claims and litigation of EUR149 million mainly relates to the litigation inherited from the acquisition of the beer operations of FEMSA in 2010 (refer to note 32).

**Other provisions**

Included are, among others, surety and guarantees provided of EUR35 million (2015: EUR39 million) and provisions for other taxes of EUR56 million (2015: EUR42 million).

**29. Trade and other payables**

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| In millions of EUR                         | Note | 2016         | 2015  |
|--|------|--------------|-------|
| Trade payables                             |      | 2,934        | 2,797 |
| Accruals and deferred income               |      | 1,263        | 1,270 |
| Taxation and social security contributions |      | 879          | 806   |
| Returnable packaging deposits              |      | 628          | 606   |
| Interest                                   |      | 129          | 131   |
| Derivatives                                |      | 75           | 89    |
| Dividends                                  |      | 45           | 46    |
| Other payables                             |      | 271          | 268   |
|  | 30   | <b>6,224</b> | 6,013 |

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### **30. Financial risk management and financial instruments**

#### **Overview**

HEINEKEN has exposure to the following risks from its use of financial instruments, as they arise in the normal course of HEINEKEN's business:

Credit risk

Liquidity risk

Market risk

This note presents information about HEINEKEN's exposure to each of the above risks, and it summarises HEINEKEN's policies and processes that are in place for measuring and managing risk, including those related to capital management. Further quantitative disclosures are included throughout these consolidated financial statements.

#### **Risk management framework**

The Executive Board, under the supervision of the Supervisory Board, has overall responsibility and sets rules for HEINEKEN's risk management and control systems. They are reviewed regularly to reflect changes in market conditions and HEINEKEN's activities. The Executive Board oversees the adequacy and functioning of the entire system of risk management and internal control, assisted by HEINEKEN Group departments.

The Global Treasury function focuses primarily on the management of financial risk and financial resources. Some of the risk management strategies include the use of derivatives, primarily in the form of spot and forward exchange contracts and interest rate swaps, but options can be used as well. It is HEINEKEN's policy that no speculative transactions are entered into.

#### **Credit risk**

Credit risk is the risk of financial loss to HEINEKEN if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and it arises principally from HEINEKEN's receivables from customers and investment securities.

Following the economic crisis of 2008, HEINEKEN placed particular focus on strengthening credit management and a Global Credit Policy was implemented. All local operations are required to comply with the principles contained within the Global Credit Policy and develop local credit management procedures accordingly. HEINEKEN annually reviews compliance with these procedures and continuous focus is placed on ensuring that adequate controls are in place to mitigate any identified risks in respect of both customer and supplier risk.

As at the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial instrument, including derivative financial instruments, in the consolidated statement of financial position.

#### **Loans to customers**

HEINEKEN's exposure to credit risk is mainly influenced by the individual characteristics of each customer. HEINEKEN's held-to-maturity investments include loans to customers, issued based on a loan contract. Loans to customers are ideally secured by, among others, rights on property or intangible assets, such as the right to take possession of the premises of the customer. Interest rates calculated by HEINEKEN are at least based on the risk-free rate plus a margin, which takes into account the risk profile of the customer and value of security given.

HEINEKEN establishes an allowance for impairment of loans that represents its estimate of incurred losses. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar customers in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on

historical data of payment statistics.

In a few countries, the issuance of new loans is outsourced to third parties. In most cases, HEINEKEN issues guarantees to the third party for the risk of default by the customer.

**Trade and other receivables**

HEINEKEN's local management has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. Under the credit policies, all customers requiring credit over a certain amount are reviewed and new customers are analysed individually for creditworthiness before HEINEKEN's standard payment and delivery terms and conditions are offered. HEINEKEN's review includes external ratings, where available, and in some cases bank references. Purchase limits are established for each customer and these limits are reviewed regularly. Customers that fail to meet HEINEKEN's benchmark creditworthiness may transact with HEINEKEN only on a prepayment basis.

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In monitoring customer credit risk customers are, on a country basis, grouped according to their credit characteristics, including whether they are an individual or legal entity, which type of distribution channel they represent, geographic location, industry, ageing profile, maturity and existence of previous financial difficulties. Customers that are graded as high risk are placed on a restricted customer list, and future sales are made on a prepayment basis only with approval of management.

HEINEKEN has multiple distribution models to deliver goods to end customers. Deliveries are done in some countries via own wholesalers, in other markets directly and in some others via third parties. As such distribution models are country-specific and diverse across HEINEKEN, the results and the balance sheet items cannot be split between types of customers on a consolidated basis. The various distribution models are also not centrally managed or monitored.

HEINEKEN establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The components of this allowance are a specific loss component and a collective loss component.

**Investments**

HEINEKEN limits its exposure to credit risk by only investing available cash balances in deposits and liquid securities and only with counterparties that have strong credit ratings. HEINEKEN actively monitors these credit ratings.

**Guarantees**

HEINEKEN's policy is to avoid issuing guarantees where possible unless this leads to substantial benefits for HEINEKEN. In cases where HEINEKEN does provide guarantees, such as to banks for loans (to third parties), HEINEKEN aims to receive security from the third party.

Heineken N.V. has issued a joint and several liability statement to the provisions of Section 403, Part 9, Book 2 of the Dutch Civil Code with respect to legal entities established in the Netherlands.

**Exposure to credit risk**

The carrying amount of financial assets and guarantees to banks for loans represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| In millions of EUR                                 | Note | 2016         | 2015*        |
|--|------|--------------|--------------|
| Cash and cash equivalents                          | 21   | 3,035        | 3,232        |
| Trade and other receivables, excluding derivatives | 20   | 3,004        | 2,821        |
| Current derivatives                                | 20   | 48           | 52           |
| Investments held for trading                       | 17   |              | 16           |
| Available-for-sale investments                     | 17   | 427          | 287          |
| Non-current derivatives and investments FVTPL      | 17   | 254          | 210          |
| Loans to customers                                 | 17   | 58           | 69           |
| Loans to joint ventures and associates             | 17   | 18           | 22           |
| Held-to-maturity investments                       | 17   | 1            | 1            |
| Other non-current receivables                      | 17   | 174          | 152          |
| Guarantees to banks for loans (to third parties)   | 32   | 335          | 473          |
|  |      | <b>7,354</b> | <b>7,335</b> |

\* Revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.



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The maximum exposure to credit risk for trade and other receivables (excluding current derivatives) at the reporting date by geographic region was:

| In millions of EUR                   | 2016         | 2015  |
|--------------------------------------|--------------|-------|
| Europe                               | 1,412        | 1,424 |
| Americas                             | 636          | 542   |
| Africa, Middle East & Eastern Europe | 444          | 449   |
| Asia Pacific                         | 349          | 308   |
| Head Office and Other/eliminations   | 163          | 98    |
|                                      | <b>3,004</b> | 2,821 |

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**Table of Contents****Impairment losses**

The ageing of trade and other receivables (excluding current derivatives) at the reporting date was:

| In millions of EUR     | Gross 2016   | Impairment 2016 | Gross 2015   | Impairment 2015 |
|------------------------|--------------|-----------------|--------------|-----------------|
| Not past due           | 2,499        | (32)            | 2,475        | (54)            |
| Past due 0 - 30 days   | 238          | (8)             | 207          | (13)            |
| Past due 31 - 120 days | 263          | (67)            | 233          | (64)            |
| More than 120 days     | 452          | (341)           | 347          | (310)           |
|                        | <b>3,452</b> | <b>(448)</b>    | <b>3,262</b> | <b>(441)</b>    |

The movement in the allowance for impairment in respect of trade and other receivables (excluding current derivatives) during the year was as follows:

| In millions of EUR                    | 2016       | 2015 |
|---------------------------------------|------------|------|
| Balance as at 1 January               | <b>441</b> | 404  |
| Changes in consolidation              |            | 7    |
| Impairment loss recognised            | 106        | 103  |
| Allowance used                        | (37)       | (29) |
| Allowance released                    | (49)       | (42) |
| Effect of movements in exchange rates | (13)       | (2)  |
| Balance as at 31 December             | <b>448</b> | 441  |

The movement in the allowance for impairment in respect of loans to customers during the year was as follows:

| In millions of EUR                    | 2016       | 2015 |
|---------------------------------------|------------|------|
| Balance as at 1 January               | <b>121</b> | 135  |
| Changes in consolidation              |            | 1    |
| Impairment loss recognised            | 1          |      |
| Allowance used                        |            |      |
| Allowance released                    | (8)        | (14) |
| Effect of movements in exchange rates | (3)        | (1)  |
| Balance as at 31 December             | <b>111</b> | 121  |

Impairment losses recognised for trade and other receivables (excluding current derivatives) and loans to customers are part of the other non-cash items in the consolidated statement of cash flows.

The income statement impact of EUR7 million gain (2015: EUR14 million gain, 2014: EUR4 million expense) in respect of loans to customers and EUR57 million expense (2015: EUR61 million expense, 2014: EUR19 million expense) in respect of trade and other receivables (excluding current derivatives) were included in expenses for raw materials, consumables and services.

The allowance accounts in respect of trade and other receivables and held-to-maturity investments are used to record impairment losses, unless HEINEKEN is satisfied that no recovery of the amount owing is possible; at that point, the amount considered irrecoverable is written off against the financial asset.

**Liquidity risk**

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Liquidity risk is the risk that HEINEKEN will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. HEINEKEN's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to HEINEKEN's reputation.

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HEINEKEN has a clear focus on ensuring sufficient access to capital markets to finance long-term growth and to refinance maturing debt obligations. Financing strategies, including the diversification of funding sources are under continuous evaluation (information about borrowing facilities is presented in Note 25). In addition, HEINEKEN seeks to align the maturity profile of its long-term debts with its forecasted cash flow generation. Strong cost and cash management and controls over investment proposals are in place to ensure effective and efficient allocation of financial resources.

**Contractual maturities**

The following are the contractual maturities of non-derivative financial liabilities and derivative financial assets and liabilities, including interest payments:

| In millions of EUR  | Carrying amount | Contractual cash flows | Less than 1 year | 1-2 years      | 2-5 years      | 2016<br>More than 5 years |
|---|-----------------|------------------------|------------------|----------------|----------------|---------------------------|
| <b>Financial liabilities</b>  |                 |                        |                  |                |                |                           |
| Interest-bearing liabilities  | (14,570)        | (16,792)               | (4,006)          | (1,703)        | (4,895)        | (6,188)                   |
| Trade and other payables (excluding interest payable, dividends and derivatives and including non-current part) | (5,994)         | (5,994)                | (5,963)          | (16)           | (2)            | (13)                      |
| <b>Derivative financial assets and (liabilities)</b>  |                 |                        |                  |                |                |                           |
| Interest rate swaps used for hedge accounting (net)   | 242             | 283                    | 17               | 266            |                |                           |
| Forward exchange contracts used for hedge accounting (net)  | (23)            | (32)                   | (24)             | (8)            |                |                           |
| Commodity derivatives used for hedge accounting (net)   | 11              | 11                     | 4                | 2              | 5              |                           |
| Derivatives not used for hedge accounting (net)   | (13)            | (14)                   | (14)             |                |                |                           |
|   | <b>(20,347)</b> | <b>(22,538)</b>        | <b>(9,986)</b>   | <b>(1,459)</b> | <b>(4,892)</b> | <b>(6,201)</b>            |

| In millions of EUR  | Carrying amount | Contractual cash flows | Less than 1 year | 1-2 years      | 2-5 years      | 2015*<br>More than 5 years |
|---|-----------------|------------------------|------------------|----------------|----------------|----------------------------|
| <b>Financial liabilities</b>  |                 |                        |                  |                |                |                            |
| Interest-bearing liabilities  | (14,973)        | (17,158)               | (4,422)          | (1,742)        | (5,193)        | (5,801)                    |
| Trade and other payables (excluding interest payable, dividends and derivatives and including non-current part) | (5,744)         | (5,744)                | (5,658)          | (62)           | (12)           | (12)                       |
| <b>Derivative financial assets and (liabilities)</b>  |                 |                        |                  |                |                |                            |
| Interest rate swaps used for hedge accounting (net)   | 214             | 265                    | 20               | 15             | 230            |                            |
| Forward exchange contracts used for hedge accounting (net)  | (2)             | (16)                   | (12)             | (4)            |                |                            |
| Commodity derivatives used for hedge accounting (net)   | (70)            | (70)                   | (42)             | (20)           | (8)            |                            |
| Derivatives not used for hedge accounting (net)   | (1)             | (1)                    | (1)              |                |                |                            |
|   | <b>(20,576)</b> | <b>(22,724)</b>        | <b>(10,115)</b>  | <b>(1,813)</b> | <b>(4,983)</b> | <b>(5,813)</b>             |

\* Revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

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The total carrying amount and contractual cash flows of derivatives are included in trade and other receivables (refer to note 20), other investments (refer to note 17), trade and other payables (refer to note 29) and non-current non-interest-bearing liabilities (refer to note 25).

### **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices, will adversely affect HEINEKEN's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

HEINEKEN uses derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. Generally, HEINEKEN seeks to apply hedge accounting or make use of natural hedges in order to minimise the effects of foreign currency fluctuations in profit or loss.

Derivatives that can be used are interest rate swaps, forward rate agreements, caps and floors, commodity swaps, spot and forward exchange contracts and options. Transactions are entered into with a limited number of counterparties with strong credit ratings. Foreign currency, interest rate and commodity hedging operations are governed by internal policies and rules approved and monitored by the Executive Board.

### **Foreign currency risk**

HEINEKEN is exposed to foreign currency risk on (future) sales, (future) purchases, borrowings and dividends that are denominated in a currency other than the respective functional currencies of HEINEKEN entities. The main currencies that give rise to this risk are the US dollar, Mexican peso, Nigerian naira, British pound, Vietnamese dong and Euro.

In 2016, the year-end exchange rate of US dollar moved to 1.05 vs the year-end 2015 rate of 1.09. This change had a limited translational and transactional impact on financial statements. The Mexican peso exchange rate depreciated from 18.88 per year-end 2015 to 21.60 per year-end 2016. The transactional exchange risk was hedged in line with the hedging policy, the resulting impact was therefore mitigated. The negative translational impact was more profound. The exchange rate for Vietnamese dong slightly moved from 24.438 per year-end 2015 to 23.969 per year-end 2016, having a limited translational and transactional impact on financial statements. In June 2016, Central Bank of Nigeria officially devalued the Nigerian naira. The Nigerian naira depreciated from year-end 2015 rate of 215.98 to 332.23 per year-end 2016. This devaluation had negative translational and transactional impact on HEINEKEN's financial statements. Following the result of the United Kingdom referendum to leave the EU, the year-end 2016 rate was 0.86 in comparison to 0.73 per year-end 2015. The transactional risk was hedged in line with the hedging policy, the resulting impact was therefore mitigated. The negative translational impact was more profound. The exchange rates mentioned in this paragraph are quoted vs Euro.

In managing foreign currency risk, HEINEKEN aims to ensure the availability of these foreign currencies and to reduce the impact of short-term fluctuations on earnings. Over the longer term, however, permanent changes in foreign exchange rates and the availability of foreign currencies, especially in emerging markets, will have an impact on profit.

HEINEKEN hedges up to 90 per cent of its net US dollar export cash flows on the basis of rolling cash flow forecasts in respect to forecasted sales and purchases. Cash flows in other foreign currencies are also hedged on the basis of rolling cash flow forecasts. HEINEKEN mainly uses forward exchange contracts to hedge its foreign currency risk. The majority of the forward exchange contracts have maturities of less than one year after the balance sheet date.

HEINEKEN has a clear policy on hedging transactional exchange risks, which postpones the impact on financial results. Translation exchange risks are hedged to a limited extent, as the underlying currency positions are generally considered to be long term in nature. The result of the net investment hedging is recognised in the translation reserve, as can be seen in the consolidated statement of comprehensive income.

It is HEINEKEN's policy to provide intra-HEINEKEN financing in the functional currency of subsidiaries where possible to prevent foreign currency exposure on a subsidiary level. The resulting exposure at Group level is hedged by means of foreign currency denominated external debts and by forward exchange contracts. Intra-HEINEKEN financing in foreign currencies is mainly in British pounds, US dollars, Swiss francs, South African rand and Polish zloty. In some cases, HEINEKEN elects to treat intra-HEINEKEN financing with a permanent character as equity and does not hedge the foreign currency exposure.

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The principal amounts of HEINEKEN's US dollar, British pound, Nigerian naira, Singapore dollar bank loans and bond issues are used to hedge local operations, which generate cash flows that have the same respective functional currencies or have functional currencies that are closely correlated. Corresponding interest on these borrowings is also denominated in currencies that match the cash flows generated by the underlying operations of HEINEKEN. This provides an economic hedge without derivatives being entered into.

In respect of other monetary assets and liabilities denominated in currencies other than the functional currencies of HEINEKEN and the various foreign operations, HEINEKEN ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

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**Table of Contents****Exposure to foreign currency risk**

HEINEKEN's transactional exposure to the US dollar and Euro was as follows based on notional amounts. The Euro column relates to transactional exposure to the Euro within subsidiaries which are reporting in other currencies. Included in the amounts are intra-HEINEKEN cash flows.

| In millions                                     | 2016           |                | 2015    |         |
|---|----------------|----------------|---------|---------|
|   | EUR            | USD            | EUR     | USD     |
| Financial assets                                | 146            | 5,260          | 124     | 5,035   |
| Financial liabilities                           | (1,291)        | (6,338)        | (1,080) | (6,214) |
| Gross balance sheet exposure                    | <b>(1,145)</b> | <b>(1,078)</b> | (956)   | (1,179) |
| Estimated forecast sales next year              | 207            | 1,330          | 168     | 1,353   |
| Estimated forecast purchases next year          | (1,965)        | (1,818)        | (1,765) | (1,534) |
| Gross exposure                                  | <b>(2,903)</b> | <b>(1,566)</b> | (2,553) | (1,360) |
| Net notional amounts foreign exchange contracts | 433            | 884            | 406     | 748     |
| Net exposure                                    | <b>(2,470)</b> | <b>(682)</b>   | (2,147) | (612)   |
| Sensitivity analysis                            |                |                |         |         |
| Equity  | (59)           | (15)           | (46)    | (33)    |
| Profit or loss                                  | (4)            | 1              | (8)     | (6)     |

**Sensitivity analysis**

A 10 per cent strengthening of the US dollar against the Euro or, in case of the Euro, a strengthening of the Euro against all other currencies as at 31 December would have affected the value of financial assets and liabilities (related to transactional exposure) recorded on the balance sheet and would have therefore decreased (increased) equity and profit by the amounts shown above. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10 per cent weakening of the US dollar against the Euro or, in case of the Euro, a weakening of the Euro against all other currencies as at 31 December would have had the equal but opposite effect on the basis that all other variables remain constant.

**Interest rate risk**

In managing interest rate risk, HEINEKEN aims to reduce the impact of short-term fluctuations on earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit.

HEINEKEN opts for a mix of fixed and variable interest rates in its financing operations, combined with the use of interest rate instruments. Currently, HEINEKEN's interest rate position is more weighted towards fixed than floating. Interest rate instruments that can be used are interest rate swaps, forward rate agreements, caps and floors.

Swap maturity follows the maturity of the related loans and borrowings which have swap rates for the fixed leg ranging from 3.8 to 6.5 per cent (2015: from 3.8 to 7.3 per cent).

**Table of Contents****Interest rate risk profile**

At the reporting date, the interest rate profile of HEINEKEN's interest-bearing financial instruments was as follows:

| In millions of EUR               | 2016            | 2015            |
|----------------------------------|-----------------|-----------------|
| <b>Fixed rate instruments</b>    |                 |                 |
| Financial assets                 | 83              | 93              |
| Financial liabilities            | (11,984)        | (11,057)        |
| Net interest rate swaps          |                 | (42)            |
|                                  | <b>(11,901)</b> | <b>(11,006)</b> |
| <b>Variable rate instruments</b> |                 |                 |
| Financial assets                 | 3,214           | 1,023           |
| Financial liabilities            | (2,587)         | (1,508)         |
| Net interest rate swaps          |                 | 42              |
|                                  | <b>627</b>      | <b>(443)</b>    |

**Cash flow sensitivity analysis for variable rate instruments**

HEINEKEN applies cash flow hedge accounting on certain floating rate financial liabilities and designates derivatives as hedging instruments. A change of 100 basis points in interest rates constantly applied during the reporting period would have increased (decreased) equity and profit or loss by the amounts shown below (after tax). This analysis assumes that all other variables, in particular foreign currency rates, remain constant and excludes any possible change in fair value of derivatives at period-end because of a change in interest rates. This analysis is performed on the same basis as for 2015.

| In millions of EUR          | Profit or loss  |                 | Equity          |                 |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|
|                             | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease |
| <b>31 December 2016</b>     |                 |                 |                 |                 |
| Variable rate instruments   | 5               | (5)             | 5               | (5)             |
| Net interest rate swaps     |                 |                 |                 |                 |
| Cash flow sensitivity (net) | <b>5</b>        | <b>(5)</b>      | <b>5</b>        | <b>(5)</b>      |
| <b>31 December 2015</b>     |                 |                 |                 |                 |
| Variable rate instruments   | (4)             | 4               | (4)             | 4               |
| Net interest rate swaps     |                 |                 |                 |                 |
| Cash flow sensitivity (net) | <b>(4)</b>      | <b>4</b>        | <b>(4)</b>      | <b>4</b>        |

**Commodity price risk**

Commodity price risk is the risk that changes in commodity prices will affect HEINEKEN's income. The objective of commodity price risk management is to manage and control commodity risk exposures within acceptable parameters, while optimising the return on risk. The main commodity exposure relates to the purchase of cans, glass bottles, malt and utilities. Commodity price risk is in principle addressed by negotiating fixed prices in supplier contracts with various contract durations. So far, commodity hedging with financial counterparties by HEINEKEN has been limited to aluminium hedging and to a limited extent gas and grains hedging, which are done in accordance with risk policies. HEINEKEN does not enter into commodity contracts other than to meet HEINEKEN's expected usage and sale requirements. As at 31 December 2016, the market value of commodity swaps was EUR11 million positive (2015: EUR70 million negative).

**Sensitivity analysis for aluminium hedges**

The table below shows an estimated pre-tax impact of 10 per cent change in the market price of aluminium.



| In millions of EUR | <b>10 per cent increase</b> | Equity<br>10 per cent decrease |
|--------------------|-----------------------------|--------------------------------|
| 31 December 2016   |                             |                                |
| Aluminium hedges   | 40                          | (40)                           |

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**Table of Contents****Cash flow hedges**

The following table indicates the carrying amount of derivatives and the periods in which all the cash flows associated with derivatives that are cash flow hedges are expected to occur:

| In millions of EUR                 | Carrying amount | Expected cash flows | Less than 1 year | 1-2 years  | 2-5 years | 2016 More than 5 years |
|------------------------------------|-----------------|---------------------|------------------|------------|-----------|------------------------|
| Interest rate swaps                |                 |                     |                  |            |           |                        |
| Assets                             |                 |                     |                  |            |           |                        |
| Liabilities                        |                 |                     |                  |            |           |                        |
| Cross-currency interest rate swaps |                 |                     |                  |            |           |                        |
| Assets                             | 242             | 1,167               | 55               | 1,112      |           |                        |
| Liabilities                        |                 | (885)               | (38)             | (847)      |           |                        |
| Forward exchange contracts         |                 |                     |                  |            |           |                        |
| Assets                             | 33              | 1,302               | 1,144            | 158        |           |                        |
| Liabilities                        | (56)            | (1,335)             | (1,169)          | (166)      |           |                        |
| Commodity derivatives              |                 |                     |                  |            |           |                        |
| Assets                             | 24              | 24                  | 12               | 7          | 5         |                        |
| Liabilities                        | (13)            | (13)                | (8)              | (5)        |           |                        |
|                                    | <b>230</b>      | <b>260</b>          | <b>(4)</b>       | <b>259</b> | <b>5</b>  |                        |

| In millions of EUR                 | Carrying amount | Expected cash flows | Less than 1 year | 1-2 years  | 2-5 years  | 2015 More than 5 years |
|------------------------------------|-----------------|---------------------|------------------|------------|------------|------------------------|
| Interest rate swaps                |                 |                     |                  |            |            |                        |
| Assets                             |                 |                     |                  |            |            |                        |
| Liabilities                        | (1)             | (2)                 | (2)              |            |            |                        |
| Cross-currency interest rate swaps |                 |                     |                  |            |            |                        |
| Assets                             | 215             | 1,220               | 90               | 53         | 1,077      |                        |
| Liabilities                        |                 | (953)               | (68)             | (38)       | (847)      |                        |
| Forward exchange contracts         |                 |                     |                  |            |            |                        |
| Assets                             | 37              | 1,437               | 1,289            | 148        |            |                        |
| Liabilities                        | (39)            | (1,453)             | (1,301)          | (152)      |            |                        |
| Commodity derivatives              |                 |                     |                  |            |            |                        |
| Assets                             | 1               | 1                   | 1                |            |            |                        |
| Liabilities                        | (71)            | (70)                | (42)             | (20)       | (8)        |                        |
|                                    | <b>142</b>      | <b>180</b>          | <b>(33)</b>      | <b>(9)</b> | <b>222</b> |                        |

The periods in which the cash flows associated with forward exchange contracts that are cash flow hedges are expected to impact profit or loss is typically one or two months earlier than the occurrence of the cash flows as in the above table.

HEINEKEN has entered into several cross-currency interest rate swaps which have been designated as cash flow hedges to hedge the foreign exchange rate risk on the principal amount and future interest payments of its US dollar borrowings. The borrowings and the cross-currency interest rate swaps have the same critical terms.

**Table of Contents****Net investment hedges**

HEINEKEN hedges its investments in certain subsidiaries by entering into local currency denominated borrowings, which mitigate the foreign currency translation risk arising from the subsidiaries net assets. These borrowings are designated as a net investment hedge. The fair value of these borrowings at 31 December 2016 was EUR506 million (2015: EUR536 million), and no ineffectiveness was recognised in profit and loss in 2016 (2015: nil, 2014: nil).

**Capital management**

There were no major changes in HEINEKEN's approach to capital management during the year. The Executive Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business and acquisitions. Capital is herein defined as equity attributable to equity holders of the Company (total equity minus non-controlling interests).

HEINEKEN is not subject to externally imposed capital requirements other than the legal reserves explained in note 22. Shares are purchased to meet the requirements of the share-based payment awards, as further explained in note 27. In 2015, HEINEKEN also purchased shares following the completion of the divestment of EMPAQUE in February 2015, as further explained in note 22.

**Fair values**

For bank loans and finance lease liabilities the carrying amount is a reasonable approximation of fair value. The fair value of the unsecured bond issues as at 31 December 2016 was EUR11,292 million (2015: EUR10,025 million) and the carrying amount was EUR10,683 million (2015: EUR9,669 million). The fair value of the other interest-bearing liabilities as at 31 December 2016 was EUR1,662 million (2015: EUR1,870 million) and the carrying amount was EUR1,597 million (2015: EUR1,759 million).

**Basis for determining fair values**

The significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above are discussed in note 4.

**Fair value hierarchy**

The tables below present the financial instruments accounted for at fair value and amortised cost by level of the following fair value measurement hierarchy:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)

Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

| 31 December 2016                   | Level 1    | Level 2    | Level 3   |
|------------------------------------|------------|------------|-----------|
| Available-for-sale investments     | 342        |            | 85        |
| Non-current derivative assets      |            | 254        |           |
| Current derivative assets          |            | 48         |           |
|                                    | <b>342</b> | <b>302</b> | <b>85</b> |
| Non-current derivative liabilities |            | (10)       |           |
| Loans and borrowings               | (11,292)   | (1,662)    |           |

|                                |                  |
|--------------------------------|------------------|
| Current derivative liabilities | (75)             |
|                                | (11,292) (1,747) |

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| 31 December 2015                   | Level 1  | Level 2 | Level 3 |
|------------------------------------|----------|---------|---------|
| Available-for-sale investments     | 98       | 105     | 84      |
| Non-current derivative assets      |          | 210     |         |
| Current derivative assets          |          | 52      |         |
| Investments held for trading       | 16       |         |         |
|                                    | 114      | 367     | 84      |
| Non-current derivative liabilities |          | (32)    |         |
| Loans and borrowings               | (10,025) | (1,870) |         |
| Current derivative liabilities     |          | (89)    |         |
|                                    | (10,025) | (1,991) |         |

During the period ended 31 December 2016 there were no significant transfers between the three levels of the fair value hierarchy, except within the available-for-sale investments. Within this category the investment in Saigon Alcohol Beer and Beverages Corporation ( SABECO , Vietnam) has been transferred from Level 2 to Level 1 due to the fact that SABECO shares are no longer traded over-the-counter, but have become listed on the Ho Chi Minh Stock Exchange in December 2016. The transferred amount as per 31 December 2016 is EUR249 million. The fair value adjustment of EUR144 million during the year is recognised in other comprehensive income and presented within equity in the fair value reserve.

## Level 2

HEINEKEN determines level 2 fair values for over-the-counter securities based on broker quotes. The fair values of simple over-the-counter derivative financial instruments are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where available.

The fair value of derivatives is calculated as the present value of the estimated future cash flows based on observable interest yield curves, basis spread and foreign exchange rates. These calculations are tested for reasonableness by comparing the outcome of the internal valuation with the valuation received from the counterparty. Fair values reflect the credit risk of the instrument and include adjustments to take into account the credit risk of HEINEKEN and counterparty when appropriate.

## Level 3

Details of the determination of level 3 fair value measurements as at 31 December 2016 are set out below:

| In millions of EUR  | 2016 | 2015 |
|---|------|------|
| Available-for-sale investments based on level 3                 |      |      |
| Balance as at 1 January   | 84   | 68   |
| Fair value adjustments recognised in other comprehensive income | (2)  | 16   |
| Disposals   |      |      |
| Transfers   | 3    |      |
| Balance as at 31 December                                       | 85   | 84   |

The fair values for the level 3 available-for-sale investments are based on the financial performance of the investments and the market multiples of comparable equity securities.

**Table of Contents****31. Off-balance sheet commitments**

| In millions of EUR                      | Total 2016   | Less than<br>1 year | 1-5 years    | More than<br>5 years | Total 2015* |
|---|--------------|---------------------|--------------|----------------------|-------------|
| Operational lease commitments           | 1,460        | 231                 | 552          | 677                  | 1,114       |
| Property, plant and equipment ordered   | 128          | 120                 | 8            |                      | 293         |
| Raw materials purchase contracts        | 5,287        | 1,569               | 2,455        | 1,263                | 5,989       |
| Marketing and merchandising commitments | 391          | 177                 | 209          | 5                    | 370         |
| Other off-balance sheet obligations     | 1,542        | 687                 | 509          | 346                  | 1,766       |
| Off-balance sheet obligations           | <b>8,808</b> | <b>2,784</b>        | <b>3,733</b> | <b>2,291</b>         | 9,532       |
| Undrawn committed bank facilities       | <b>2,747</b> |                     | <b>2,747</b> |                      | 2,930       |

\* Revised

HEINEKEN leases buildings, cars and equipment in the ordinary course of business.

Raw material contracts include long-term purchase contracts with suppliers in which prices are fixed or will be agreed based upon predefined price formulas. These contracts mainly relate to malt, bottles and cans. The raw materials purchase commitments relates to purchase contracts with EMPAQUE which has become a third party supplier after the disposal in 2015.

During the year ended 31 December 2016, EUR302 million (2015: EUR301 million, 2014: EUR291 million) was recognised as an expense in profit or loss in respect of operating leases and rent.

On 15 December 2016 HEINEKEN has announced that following Vine Acquisitions Limited's announcement of a recommended cash offer for Punch Taverns plc, HEINEKEN through HEINEKEN UK has agreed a back-to-back deal with Vine Acquisitions to acquire Punch Securitisation A ( Punch A ), comprising approximately 1,900 pubs across the UK. HEINEKEN will pay an aggregate consideration of GBP305.0 million (EUR356 million as per 31 December 2016) for the shares in Punch A and assumed intercompany debts due from Punch A to Punch Taverns plc. As at 20 August external debts (nominal value) and derivatives of Punch A amounted to GBP962.3 million. On 1 November 2016, Punch Taverns plc reduced the Punch A external debt by redeeming GBP65 million of its class B4 notes. The acquisition of Punch A is subject, amongst other things, to approval by the relevant regulatory authorities.

The EUR356 million cash consideration is included in the other off-balance sheet commitments (less than 1 year).

Next to the above mentioned consideration for Punch A, other off-balance sheet obligations includes distribution and service contracts.

Committed bank facilities are credit facilities on which a commitment fee is paid as compensation for the bank's requirement to reserve capital. The bank is legally obliged to provide the facility under the terms and conditions of the agreement.

**32. Contingencies**

HEINEKEN has contingencies for which, in the opinion of management and its legal counsel, the risk of loss is possible but not probable and therefore no provisions have been recorded. For example, HEINEKEN is from time to time involved in legal and arbitration proceedings arising in the ordinary course of business. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. HEINEKEN cannot reliably estimate the likely timing and amount of resolution for the majority of these matters.

Furthermore, HEINEKEN operates in a high number of tax jurisdictions, and is subject to a wide variety of taxes per tax jurisdiction (for example excise duties, VAT, corporate income tax and local taxes). In some cases, tax legislation is highly complex and subject to interpretation. As a result, HEINEKEN is required to exercise judgement in the recognition of the probable amount of taxes payable or recoverable and determination of contingencies.



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HEINEKEN's significant contingencies are described below.

**Brazil**

As part of the acquisition of the beer operations of FEMSA in 2010, HEINEKEN inherited existing legal proceedings with labour unions, tax authorities and other parties of its, now wholly-owned, subsidiaries Cervejarias Kaiser Brasil and Cervejarias Kaiser Nordeste (jointly, Heineken Brasil). The proceedings have arisen in the ordinary course of business and are common to the current economic and legal environment of Brazil. The proceedings have partly been provided for (refer to note 28). The contingent amount being claimed against Heineken Brasil resulting from such proceedings as at 31 December 2016 is EUR348 million. Such contingencies were classified by legal counsel as less than probable of being settled against Heineken Brasil, but more than remote. However, HEINEKEN believes that the ultimate resolution of such legal proceedings will not have a material adverse effect on its consolidated financial position or result of operations. HEINEKEN does not expect any significant liability to arise from these contingencies. A part of the aforementioned contingencies (EUR269 million) is tax-related and qualifies for indemnification by FEMSA.

As is customary in Brazil, Heineken Brasil has been requested by the tax authorities to collateralise tax contingencies currently in litigation amounting to EUR521 million by either pledging fixed assets or entering into available lines of credit which cover such contingencies.

**Guarantees**

| In millions of EUR                               | Total 2016   | Less than<br>1 year | 1-5 years  | More than<br>5 years | Total 2015 |
|--|--------------|---------------------|------------|----------------------|------------|
| Guarantees to banks for loans (to third parties) | 335          | 137                 | 187        | 11                   | 473        |
| Other guarantees                                 | 771          | 171                 | 331        | 269                  | 564        |
| <b>Guarantees</b>                                | <b>1,106</b> | <b>308</b>          | <b>518</b> | <b>280</b>           | 1,037      |

Guarantees to banks for loans relate to loans and advanced discounts to customers, which are given to external parties in the ordinary course of business of HEINEKEN. HEINEKEN provides guarantees to the banks to cover the risk related to these loans.

**33. Related parties****Identification of related parties**

HEINEKEN's parent company is Heineken Holding N.V. HEINEKEN's ultimate controlling party is Mrs. de Carvalho-Heineken. Our shareholder structure is set out in the section [Shareholder Information](#).

In addition, HEINEKEN has related party relationships with its associates and joint ventures (refer to note 16), HEINEKEN pension funds (refer to note 26), Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA), employees (refer to note 25) and with its key management personnel (the Executive Board and the Supervisory Board).

**Key management remuneration**

| In millions of EUR | 2016        | 2015 | 2014 |
|--------------------|-------------|------|------|
| Executive Board    | 13.0        | 13.9 | 15.4 |
| Supervisory Board  | 1.0         | 0.9  | 1.0  |
| <b>Total</b>       | <b>14.0</b> | 14.8 | 16.4 |

**Executive Board**

The remuneration of the members of the Executive Board consists of a fixed component and a variable component. The variable component is made up of a Short-term variable pay (STV) and a Long-term variable award (LTV). The STV is based on financial and operational measures



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(75 per cent) and on individual leadership measures (25 per cent) as set by the Supervisory Board. For the LTV award we refer to note 27.

As at 31 December 2016, Mr. Jean-François van Boxmeer held 217,276 Company shares and Mrs. Laurence Debroux held 7,069 Company shares(2015: Mr. Jean-François van Boxmeer 179,838, Mrs. Laurence Debroux 681).

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| In thousands of EUR                       | 2016         |              |               | 2015         |            |       | 2014         |       |       |        |
|---|--------------|--------------|---------------|--------------|------------|-------|--------------|-------|-------|--------|
|   | J.F.M.L. van |              | Total         | D.R. Hoof    |            | Total | D.R. Hoof    |       | Total |        |
|   | Boxmeer      | L. Debroux   |               | J.F.M.L. van | L. Debroux |       | J.F.M.L. van | Hoof  |       |        |
| Fixed salary                              | 1,200        | 720          | 1,920         | 1,150        | 421        | 201   | 1,772        | 1,150 | 650   | 1,800  |
| Short-Term Variable pay                   | 3,360        | 1,440        | 4,800         | 2,930        | 833        | 394   | 4,157        | 2,769 | 1,118 | 3,887  |
| Matching share entitlement                | 751          | 322          | 1,073         | 1,353        | 385        | 182   | 1,920        | 640   | 517   | 1,157  |
| Long-Term Variable award                  | 3,204        | 711          | 3,915         | 2,706        | 158        | 1,825 | 4,689        | 2,972 | 1,690 | 4,662  |
| Extraordinary share award/Retention bonus |              | 22           | 22            | 236          | 124        |       | 360          | 750   |       | 750    |
| Pension contributions                     | 944          | 139          | 1,083         | 723          | 82         | 33    | 838          | 709   | 387   | 1,096  |
| Other emoluments                          | 21           | 160          | 181           | 21           | 134        | 7     | 162          | 21    | 21    | 42     |
| Termination benefit                       |              |              |               |              |            |       |              |       | 2,000 | 2,000  |
| <b>Total</b>                              | <b>9,480</b> | <b>3,514</b> | <b>12,994</b> | 9,119        | 2,137      | 2,642 | 13,898       | 9,011 | 6,383 | 15,394 |

\* In 2015, an estimated tax penalty of EUR2.8 million (2014: EUR1.5 million) to the Dutch tax authorities was recognised in relation to the remuneration of Mr. René Hoof Graafland. This tax was an expense to the employer and therefore not included in the table above.

The matching share entitlements for each year are based on the performance in that year. The Executive Board members receive 25% of their STV pay in (investment) shares. In addition they have the opportunity to indicate before year-end whether they wish to receive up to another 25% of their STV pay in (investment) shares. All (investment) shares are restricted for sale for five calendar years, after which they are matched 1:1 by (matching) shares. For 2016 the Executive Board members did not elect to receive additional (investment) shares, hence the Matching share entitlement in the table above is based on a 25% investment. In 2015 the investment was 50% for both Executive Board members. In 2014 the CEO invested 25 per cent and the CFO invested 50 per cent. From an accounting perspective the corresponding matching shares vest immediately and as such a fair value of EUR1.1 million was recognised in the 2016 income statement. The matching share entitlements are not dividend-bearing during the five calendar year holding period of the investment shares. Therefore, the fair value of the matching share entitlements has been adjusted for missed expected dividends by applying a discount based on the dividend policy and vesting period.

**Supervisory Board**

The individual members of the Supervisory Board received the following remuneration:

| In thousands of EUR          | 2016         | 2015 | 2014  |
|------------------------------|--------------|------|-------|
| G.J. Wijers                  | 163          | 160  | 163   |
| J.A. Fernández Carbajal      | 109          | 105  | 105   |
| M. Das                       | 88           | 85   | 88    |
| M.R. de Carvalho             | 96           | 104  | 141   |
| J.M. de Jong <sup>1</sup>    |              |      | 25    |
| A.M. Fentener van Vlissingen | 91           | 85   | 91    |
| M.E. Minnick <sup>2</sup>    | 28           | 80   | 83    |
| V.C.O.B.J. Navarre           | 74           | 70   | 73    |
| J.G. Astaburuaga Sanjinés    | 99           | 96   | 95    |
| H. Scheffers                 | 83           | 80   | 81    |
| J.M. Huët <sup>3</sup>       | 88           | 75   | 58    |
| P. Mars-Wright <sup>4</sup>  | 49           |      |       |
| Y. Brunini <sup>4</sup>      | 44           |      |       |
|                              | <b>1,012</b> | 940  | 1,003 |

<sup>1</sup> Stepped down as at 24 April 2014

<sup>2</sup> Stepped down as at 21 April 2016

<sup>3</sup> Appointed as at 24 April 2014

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<sup>4</sup> Appointed as at 21 April 2016

Mr. Michel de Carvalho held 100,008 shares of Heineken N.V. as at 31 December 2016 (2015: 100,008 shares, 2014: 100,008 shares). As at 31 December 2016 and 2015, the Supervisory Board members did not hold any of the Company's bonds or option rights. Mr. Michel de Carvalho held 100,008 ordinary shares of Heineken Holding N.V. as at 31 December 2016 (2015: 100,008 ordinary shares, 2014: 100,008 ordinary shares).

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**Table of Contents****Other related party transactions**

| In millions of EUR                              | Transaction value |              |            | Balance outstanding as at 31 December |            |
|---|-------------------|--------------|------------|---------------------------------------|------------|
|   | 2016              | 2015*        | 2014       | 2016                                  | 2015*      |
| <b>Sale of products, services and royalties</b> |                   |              |            |                                       |            |
| To associates and joint ventures                | 441               | 286          | 75         | 95                                    | 54         |
| To FEMSA  | 797               | 817          | 857        | 170                                   | 137        |
|   | <b>1,238</b>      | <b>1,103</b> | <b>932</b> | <b>265</b>                            | <b>191</b> |
| <b>Raw materials, consumables and services</b>  |                   |              |            |                                       |            |
| Goods for resale joint ventures                 | 5                 | 2            |            |                                       |            |
| Other expenses joint ventures                   | 370               | 356          |            | 37                                    | 24         |
| Other expenses FEMSA                            | 151               | 197          | 201        | 70                                    | 59         |
|   | <b>526</b>        | <b>555</b>   | <b>201</b> | <b>107</b>                            | <b>83</b>  |

\* Revised

**Heineken Holding N.V.**

In 2016, an amount of EUR1,159,905 (2015: EUR1,047,479, 2014: EUR744,285) was paid to Heineken Holding N.V. for management services for HEINEKEN.

This payment is based on an agreement of 1977 as amended in 2001, providing that Heineken N.V. reimburses Heineken Holding N.V. for its costs. Best practice provision III.6.4 of the Dutch Corporate Governance Code of 10 December 2008 has been observed in this regard.

**FEMSA**

As consideration for HEINEKEN's acquisition of the beer operations of Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA), FEMSA became a major shareholder of Heineken N.V. Therefore, several existing contracts between FEMSA and former FEMSA-owned companies acquired by HEINEKEN have become related party contracts.

**34. HEINEKEN entities****Control of HEINEKEN**

The shares and options of the Company are traded on Euronext Amsterdam, where the Company is included in the main AEX Index. Heineken Holding N.V. Amsterdam has an interest of 50.005 per cent in the issued capital of the Company. The financial statements of the Company are included in the consolidated financial statements of Heineken Holding N.V.

A declaration of joint and several liability pursuant to the provisions of Section 403, Part 9, Book 2, of the Dutch Civil Code has been issued with respect to legal entities established in the Netherlands. The list of the legal entities for which the declaration has been issued is disclosed in the Heineken N.V. stand-alone financial statements.

Pursuant to the provisions of Section 357 of the Republic of Ireland Companies Act 2014, the Company irrevocably guarantees, in respect of the financial year from 1 January 2016 up to and including 31 December 2016, the liabilities referred to in Schedule 3 of the Republic of Ireland Companies Act 2014 of the wholly-owned subsidiary companies Heineken Ireland Limited, Heineken Ireland Sales Limited, The West Cork Bottling Company Limited, Western Beverages Limited, Beamish & Crawford Limited and Nash Beverages Limited.

**Significant subsidiaries**

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Set out below are HEINEKEN's significant subsidiaries at 31 December 2016. The subsidiaries as listed below are held by the Company and the proportion of ownership interests held equals the proportion of the voting rights held by HEINEKEN. The country of incorporation or registration is also their principal place of business. The disclosed significant subsidiaries represent the largest subsidiaries and represent an approximate total revenue of EUR13 billion and total asset value of EUR22 billion and are structural contributors to the business.

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There were no significant changes to the HEINEKEN structure and ownership interests.

|  | Country of incorporation | Percentage of ownership |       |
|--|--------------------------|-------------------------|-------|
|  |                          | 2016                    | 2015  |
| Heineken International B.V.                | The Netherlands          | 100.0                   | 100.0 |
| Heineken Brouwerijen B.V.                  | The Netherlands          | 100.0                   | 100.0 |
| Heineken Nederland B.V.                    | The Netherlands          | 100.0                   | 100.0 |
| Cuauhtémoc Moctezuma Holding, S.A. de C.V. | Mexico                   | 100.0                   | 100.0 |
| Cervejarias Kaiser Brasil S.A.             | Brazil                   | 100.0                   | 100.0 |
| Heineken France S.A.S.                     | France                   | 100.0                   | 100.0 |
| Nigerian Breweries Plc.                    | Nigeria                  | 55.4                    | 54.3  |
| Heineken USA Inc.                          | United States            | 100.0                   | 100.0 |
| Heineken UK Ltd                            | United Kingdom           | 100.0                   | 100.0 |
| Heineken España S.A.                       | Spain                    | 99.8                    | 99.8  |
| Heineken Italia S.p.A.                     | Italy                    | 100.0                   | 100.0 |
| Brau Union Österreich AG                   | Austria                  | 100.0                   | 100.0 |
| Grupa Zywiec S.A.                          | Poland                   | 65.2                    | 65.2  |
| LLC Heineken Breweries                     | Russia                   | 100.0                   | 100.0 |
| Heineken Vietnam Brewery Limited Company   | Vietnam                  | 60.0                    | 60.0  |

**Non-controlling interests**

None of the non-controlling interests are considered to be material to HEINEKEN.

**35. Subsequent events**

On 13 February 2017, HEINEKEN announced that it had reached an agreement with Kirin Holdings Company Limited to acquire Brasil Kirin Holding S.A. for a consideration of EUR664 million (enterprise value of EUR1,025 million for HEINEKEN). Through the acquisition HEINEKEN acquires Kirin's Brazilian activities. The transaction is expected to close in the first half of 2017.

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**36. Other disclosures**

**Remuneration**

Refer to note 33 of the consolidated financial statements for the remuneration and incentives of the Executive Board and Supervisory Board.

**Executive and Supervisory Board statement**

The members of the Supervisory Board signed the financial statements in order to comply with their statutory obligation pursuant to Article 2:101, paragraph 2, of the Dutch Civil Code.

The members of the Executive Board signed the financial statements in order to comply with their statutory obligation pursuant to Article 2:101, paragraph 2, of the Dutch Civil Code and Article 5:25c, paragraph 2 sub c, of the Financial Markets Supervision Act.

Amsterdam, 14 February 2017

Executive Board

Supervisory Board

Van Boxmeer

Wijers

Debroux

Fernández Carbajal

Das

de Carvalho

Fentener van Vlissingen

Navarre

Astaburuaga Sanjinés

Scheffers

Huët

Mars-Wright

Brunini

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