Coca-Cola FEMSA

FINANCIAL STATEMENTS 2019

ANNUAL REPORT OF THE *audit committee*

TO THE BOARD OF DIRECTORS COCA COLA FEMSA, S.A.B. DE C.V.

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

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

RISK ASSESSMENT

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

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

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

INTERNAL CONTROL

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

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

EXTERNAL AUDIT

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

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

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

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

INTERNAL AUDITING

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

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

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

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

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

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

FINANCIAL INFORMATION, ACCOUNTING POLICIES AND REPORTS TO THE THIRD PARTIES

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

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

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS, LEGAL ISSUES AND CONTINGENCIES

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

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

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

CODE OF CONDUCT

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

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

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

TRAINING

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

ADMINISTRATIVE ACTIVITIES

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

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

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

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

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

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

Sincerely

ALBERTO TIBURCIO CELORIO
Chairman of the Audit Committee
Coca Cola FEMSA, S.A.B. de C.V.

February 25th, 2020

independent auditor's REPORT

THE BOARD OF DIRECTORS AND SHAREHOLDERS OF COCA-COLA FEMSA, S.A.B. DE C.V.

OPINION

We have audited the accompanying consolidated financial statements of Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at December 31, 2019 and 2018, and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for each of the tree year period ended as at December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018 and its financial performance and its cash flows for each of the tree years ended as at December 31, 2019, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

BASIS FOR OPINION

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

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

KEY AUDIT MATTERS

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

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

IMPAIRMENT TESTING OF DISTRIBUTION RIGHTS AND GOODWILL

Description of the key audit matter

At December 31, 2019, the Company has Distribution rights and goodwill with an aggregate carrying value of approximately $ 107 million. As explained in Note 13 to the consolidated financial statements, distribution rights and goodwill are tested for impairment annually at the cash Generating Unit Level (CGUs). Impairment exists when the carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use.

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

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

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

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

RECOVERABILITY OF DEFERRED TAX ASSETS

Description of the key audit matter
As described in Note 25 to the consolidated financial statements, the Company had recognized deferred tax assets arising from net operating loss carryforwards (NOLs) of approximately $9,224 million and recoverable tax credits of approximately $1,855 million. The NOLs were generated primarily by the Brazilian and Mexican operations and attributable to tax deductions of goodwill amortization generated from recent business acquisitions in Brazil and to remeasurement effects of foreign currency denominated borrowings by the Mexico operation. The recoverable tax credits correspond to income tax credits generated in Mexico arising from dividends received from foreign subsidiaries.

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

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

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

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

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

EXCLUSION OF THE ICMS ON FEDERAL SALES TAX (PIS/COFINS) CALCULATE BASIS

Description of the key audit matter

As disclosed in Note 25.2 to the consolidated financial statements, the Group recorded an asset within the recoverable taxes caption in the Consolidated Statement of Financial Position as of December 31, 2019, related to federal sales tax ("PIS COFINS") paid in prior years in Brazil. This resulted from a ruling in favor of the Brazilian subsidiary of the Company by the Brazilian Federal Supreme Court (STF) that stated that the inclusion of the ICMS in the PIS and COFINS taxable basis is unconstitutional and, consequently, allowed the Brazilian subsidiary the right to claim the excess PIS COFINS paid as credits following certain administrative procedures.

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

How our audit addressed the matter

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

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

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

OTHER INFORMATION INCLUDED IN THE GROUP'S 2019 ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

RESPONSIBILITIES OF MANAGEMENT AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The partner in charge of the audit resulting in this independent auditor's report, is who signs it.

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

LUIS F. ORTEGA SINENCIO

Mexico City, Mexico
March 11, 2020

CONSOLIDATED STATEMENTS OF financial position

COCA-COLA FEMSA, S.A.B. DE C.V. AND SUBSIDIARIES

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

	NOTE		DECEMBER 2019 [1]		DECEMBER 2019 [2]		DECEMBER 2018
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	6	**$**	**1,086**	**Ps.**	**20,491**	Ps.	23,727
Trade receivables, net	7		**821**		**15,476**		14,847
Inventories	8		**559**		**10,538**		10,051
Recoverable taxes	25		**401**		**7,567**		6,038
Other current financial assets	9		**57**		**1,076**		805
Other current assets	9		**87**		**1,648**		2,022
Total current assets			**3,011**		**56,796**		57,490
Non-current assets:							
Investments in other entities	10		**517**		**9,751**		10,518
Right-of-use assets	11		**73**		**1,382**		–
Property, plant and equipment, net	12		**3,244**		**61,187**		61,942
Intangible assets, net	13		**5,941**		**112,050**		116,804
Deferred tax assets	25		**553**		**10,432**		8,438
Other non-current financial assets	14		**11**		**204**		2, 123
Other non-current assets	14		**321**		**6,037**		6,472
Total non-current assets			**10,660**		**201,043**		206,297
TOTAL ASSETS		**$**	**13,671**	**Ps.**	**257,839**	Ps.	263,787

(1) Convenience translation to U.S. dollars ($) – See Note 2.2.3
(2) The Company initially adopted IFRS 16 on January 1, 2019 using the modified retrospective approach under which the comparative information is not restated. – See Note 2.4.1

The accompanying notes are an integral part of these consolidated statements of financial position.

	NOTE		DECEMBER 2019 [1]		DECEMBER 2019 [2]		DECEMBER 2018
LIABILITIES AND EQUITY							
CURRENT LIABILITIES:							
Bank loans and notes payable	19	**$**	**47**	**Ps.**	**882**	Ps.	1,382
Current portion of non-current debt	19		**562**		**10,603**		10,222
Current portion of lease liabilities	11		**26**		**483**		—
Interest payable			**23**		**439**		497
Suppliers			**1,052**		**19,832**		19,746
Accrued liabilities			**548**		**10,331**		5,904
Taxes payable			**379**		**7,156**		7,207
Other current financial liabilities	26		**68**		**1,284**		566
Total current liabilities			**2,705**		**51,010**		45,524
NON CURRENT LIABILITIES:							
Bank loans and notes payable	19		**3,101**		**58,492**		70,201
Post-employment and other non-current employee benefits	17		**175**		**3,293**		2,652
Non-current portion of lease liabilities	11		**48**		**900**		—
Deferred tax liabilities	25		**200**		**3,771**		2,856
Other non-current financial liabilities	26		**101**		**1,897**		1,376
Provisions and other non-current liabilities	26		**465**		**8,791**		9,428
Total non-current liabilities			**4,090**		**77,144**		86,513
TOTAL LIABILITIES			**6,795**		**128,154**		132,037
EQUITY:							
Common stock	23		**109**		**2,060**		2,060
Additional paid-in capital			**2,416**		**45,560**		45,560
Retained earnings			**4,020**		**75,820**		71,270
Other equity instruments			**(92)**		**(1,740)**		(1,524)
Accumulated other comprehensive income			**65**		**1,234**		7,578
Equity attributable to equity holders of the parent			**6,518**		**122,934**		124,944
Non-controlling interest in consolidated subsidiaries	23		**358**		**6,751**		6,806
TOTAL EQUITY			**6,876**		**129,685**		131,750
TOTAL LIABILITIES AND EQUITY		**$**	**13,671**	**Ps.**	**257,839**	Ps.	263,787

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

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

The accompanying notes are an integral part of these consolidated statements of financial position.

CONSOLIDATED income statements

For the years ended December 31, 2019, 2018 and 2017
In millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.) except for earnings per share amounts

	NOTE	2019 (1)	2019 (2)	2018	2017
CONTINUING OPERATIONS					
Net sales		$ 10,198	Ps. 192,342	Ps. 181,823	Ps. 182,850
Other operating revenues	25	113	2,129	519	406
Total revenues		10,311	194,471	182,342	183,256
Cost of goods sold		5,671	106,964	98,404	99,748
Gross profit		4,640	87,507	83,938	83,508
Administrative expenses		447	8,427	7,999	7,693
Selling expenses		2,764	52,110	49,925	50,351
Other income	20	100	1,890	569	1,542
Other expenses	20	232	4,380	2,450	32,899
Interest expense	19	366	6,904	7,568	8,777
Interest income		65	1,230	1,004	791
Foreign exchange (loss) income, net		(17)	(330)	(277)	788
Gain on monetary position for subsidiaries in hyperinflationary economies		12	221	212	1,590
Market value (loss) income on financial instruments	21	(15)	(288)	(314)	246
Income (loss) before income taxes and share of the profit of associates and joint ventures accounted for using the equity method		976	18,409	17,190	(11,255)
Income taxes	25	299	5,648	5,260	4,184
Share in the (loss) profit of equity accounted investees, net of taxes	10	(7)	(131)	(226)	60
Net income (loss) from continuing operations		670	12,630	11,704	(15,379)
Net income after tax from discontinued operations	5	–	–	3,366	3,725
CONSOLIDATED NET INCOME (LOSS)		$ 670	Ps. 12,630	Ps. 15,070	Ps. (11,654)
Attributable to:					
Equity holders of the parent- continuing operations		$ 642	Ps. 12,101	Ps. 10,936	Ps. (16,058)
Equity holders of the parent- discontinued operations		–	–	2,975	3,256
Non-controlling interest- continuing operations		28	529	768	679
Non-controlling interest- discontinued operations		$ –	Ps. –	Ps. 391	Ps. 469
Net income (loss)		$ 670	Ps. 12,630	Ps. 15,070	Ps. (11,654)

Earnings per share - Equity holders of the parent (U.S. dollars and Mexican pesos)(3):

	NOTE	2019 (1)	2019 (2)	2018	2017
Basic controlling interest net income (loss) from continuing operations	24	$ 0.04	Ps. 0.72	Ps. 0.65	Ps. (0.96)
Basic controlling interest net income from discontinued operations	24	–	–	0.18	0.19
Diluted controlling interest net income (loss) from continuing operations	24	0.04	0.72	0.65	(0.96)
Diluted controlling interest net income from discontinued operations	24	–	–	0.18	0.19

(1) Convenience translation to U.S. dollars ($) – See Note 2.2.3
(2) The Company initially adopted IFRS 16 on January 1, 2019 using the modified retrospective approach under which the comparative information is not restated – See note 2.4.1
(3) 2018 and 2017 data have been revised for the effect of the March 22, 2019 eight to one stock split – See Note 23

The accompanying notes are an integral part of these consolidated statements of financial position.

CONSOLIDATED STATEMENTS OF comprehensive income

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

	NOTE	2019 (1)	2019 (2)	2018	2017
CONSOLIDATED NET INCOME (LOSS)		**$ 670**	**Ps. 12,630**	Ps. 15,070	Ps. (11,654)
Other comprehensive income, net of taxes:					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Valuation of the effective portion of derivative financial instruments, net of taxes	21	**(44)**	**(835)**	(437)	(266)
Exchange differences on the translation of foreign operations and associates		**(296)**	**(5,579)**	(7,234)	15,207
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods		**(340)**	**(6,414)**	(7,671)	14,941
Items that will not be reclassified to profit or loss in subsequent periods:					
Loss from equity financial asset classified at FVOCI		**(11)**	**(216)**	(1,039)	–
Re-measurements of the net defined benefit liability, net of taxes	17	**(28)**	**(511)**	259	28
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods		**(39)**	**(727)**	(780)	28
Total other comprehensive (loss) income, net of tax		**(379)**	**(7,141)**	(8,451)	14,969
Consolidated comprehensive income for the year, net of tax		**$ 291**	**Ps. 5,489**	Ps. 6,619	Ps. 3,315
Attributable to:					
Equity holders of the parent from continuing operations		**$ 294**	**Ps. 5,541**	Ps. 3,984	Ps. 841
Equity holders of the parent from discontinued operations		**–**	**–**	2,817	2,500
Non-controlling interest from continuing operations		**(3)**	**(52)**	(421)	146
Non-controlling interest from discontinued operations		**–**	**–**	239	(172)
Consolidated comprehensive income for the year, net of tax		**$ 291**	**Ps. 5,489**	Ps. 6,619	Ps. 3,315

(1) Convenience translation to U.S. dollars ($) – See Note 2.2.3
(2) The Company initially adopted IFRS 16 on January 1, 2019 using the modified retrospective approach under which the comparative information is not restated. – See Note 2.4.1

The accompanying notes are an integral part of these consolidated statements of comprehensive income.

CONSOLIDATED STATEMENTS OF *changes in equity*

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

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	OTHER EQUITY INSTRUMENTS	VALUATION OF THE EFFECTIVE PORTION OF DERIVATIVE FINANCIAL INSTRUMENTS	EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS AND ASSOCIATES	REMEASUREMENTS OF THE NET DEFINED BENEFIT LIABILITY	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	NON-CONTROLLING INTEREST	TOTAL EQUITY
Balances as of January 1, 2017	2,048	41,490	81,579	(485)	439	(2,377)	(557)	122,137	7,096	129,233
Consolidated net income (loss)	–	–	(12,802)	–	–	–	–	(12,802)	1,148	(11,654)
Other comprehensive loss, net of tax	–	–	–	–	(192)	(9,778)	(10)	(9,980)	(1,174)	(11,154)
Total comprehensive income										
Deconsolidation of Venezuela (Note 3.3)	–	–	–	–	–	26,123	–	26,123	–	26,123
Total comprehensive income	–	–	(12,802)	–	(192)	16,345	(10)	3,341	(26)	3,315
Acquisition of Vonpar (Note 4)	12	4,070	–	–	–	–	–	4,082	–	4,082
Dividends declared	–	–	(6,991)	–	–	–	–	(6,991)	(1)	(6,992)
Consolidation of Philippines	–	–	–	–	–	–	–	–	11,072	11,072
Balances as of December 31, 2017	Ps. 2,060	Ps. 45,560	Ps. 61,786	Ps. (485)	Ps. 247	Ps. 13,968	Ps. (567)	Ps. 122,569	Ps. 18,141	Ps. 140,710
Accounting standard adoption effects	–	–	(75)	–	–	–	–	(75)	(12)	(87)
Adoption of IAS 29 for Argentina	–	–	2,686	–	–	–	–	2,686	–	2,686
Balances as of January 1, 2018	Ps. 2,060	Ps. 45,560	Ps. 64,397	Ps. (485)	Ps. 247	Ps. 13,968	Ps. (567)	Ps. 125,180	Ps. 18,129	Ps. 143,309
Consolidated net income	–	–	13,911	–	–	–	–	13,911	1,159	15,070
Other comprehensive loss, net of tax	–	–	–	(1,039)	(396)	(5,897)	223	(7,109)	(1,342)	(8,451)
Total comprehensive income	–	–	13,911	(1,039)	(396)	(5,897)	223	6,802	(183)	6,619
Dividends declared	–	–	(7,038)	–	–	–	–	(7,038)	–	(7,038)
Sale of Philippines operations	–	–	–	–	–	–	–	–	(11,140)	(11,140)
Balances as of December 31, 2018	Ps. 2,060	Ps. 45,560	Ps. 71,270	Ps. (1,524)	Ps. (149)	Ps. 8,071	Ps. (344)	Ps. 124,944	Ps. 6,806	Ps. 131,750
Accounting standard adoption effects (see Note 2.4)	–	–	(114)	–	–	–	–	(114)	–	(114)
Balances as of January 1, 2019	**Ps. 2,060**	**Ps. 45,560**	**Ps. 71,156**	**Ps. (1,524)**	**Ps. (149)**	**Ps. 8,071**	**Ps. (344)**	**Ps. 124,830**	**Ps. 6,806**	**Ps. 131,636**
Consolidated net income	–	–	12,101	–	–	–	–	12,101	529	12,630
Other comprehensive loss, net of tax	–	–	–	(216)	(819)	(5,014)	(511)	(6,560)	(581)	(7,141)
Total comprehensive income (loss)	–	–	12,101	(216)	(819)	(5,014)	(511)	5,541	(52)	5,489
Dividends declared	–	–	(7,437)	–	–	–	–	(7,437)	(3)	(7,440)
Balances as of December 31, 2019	**Ps. 2,060**	**Ps. 45,560**	**Ps. 75,820**	**Ps. (1,740)**	**Ps. (968)**	**Ps. 3,057**	**Ps. (855)**	**Ps. 122,934**	**Ps. 6,751**	**Ps. 129,685**

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

CONSOLIDATED STATEMENTS OF cash flow

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

	2019 (1)	2019 (2)	2018	2017
OPERATING ACTIVITIES:				
Income (loss) before income taxes from continuing operations	$ 969	Ps. 18,278	Ps. 16,964	Ps. (11,195)
Adjustments for:				
Non-cash operating (income) expenses	(128)	(2,409)	1,296	4,663
Depreciation	445	8,387	8,404	8,402
Depreciation right-of-use	29	555	—	—
Amortization	90	1,700	1,624	1,230
(Income) on disposal of long-lived assets	(2)	(42)	(178)	(129)
Write-off of long-lived assets	17	318	103	174
Share of the (profit) loss of associates and joint ventures accounted for using the equity method, net of taxes	7	131	226	(60)
Interest income	(65)	(1,230)	(1,004)	(791)
Interest expense	366	6,904	5,198	4,617
Foreign exchange loss (income), net	17	330	277	(788)
Non-cash movements in post-employment and other non-current employee benefits obligations	13	239	219	396
Impairment	50	948	432	1,843
Deconsolidation of Venezuela	—	—	—	26,333
Consolidation of Philippines	—	—	—	(2,996)
Monetary position gain, net	(12)	(221)	(212)	(1,591)
Market value loss on financial instruments	15	288	2,370	4,073
(Increase) decrease:				
Accounts receivable and other current assets	(99)	(1,858)	(2,097)	(3,363)
Other current financial assets	(5)	(100)	(396)	(2,435)
Inventories	(60)	(1,140)	(1,386)	(688)
Suppliers and other accounts payable	304	5,726	1,666	3,668
Other liabilities	(12)	(231)	381	735
Employee benefits paid	(25)	(478)	(124)	(310)
Income taxes paid	(254)	(4,806)	(6,182)	(5,252)
Net cash flows generated from operating activities from continuing operations	1,660	31,289	27,581	26,536
Income before income taxes for discontinued operations	—	—	1,308	1,265
Net cash flows generated from operation activities for discontinued operations	—	—	654	5,435

(1) Convenience translation to U.S. dollars ($) – See Note 2.2.3
(2) The Company initially adopted IFRS 16 on January 1, 2019 using the modified retrospective approach under which the comparative information is not restated. – See Note 2.4.1

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

		2019 (1)		2019 (2)		2018		2017
INVESTING ACTIVITIES:								
Acquisition and mergers, net of cash acquired (see Note 4)		**–**		**–**		(5,692)		26
Deconsolidation of Venezuela (see Note 3.3)		**–**		**–**		–		(170)
Proceed from sale of subsidiary, net of cash disposed		**–**		**–**		7,649		–
Interest received		**65**		**1,230**		1,004		791
Acquisitions of long-lived assets		**(548)**		**(10,324)**		(9,917)		(9,715)
Proceeds from the sale of long-lived assets		**17**		**330**		399		323
Acquisitions of intangible assets		**(75)**		**(1,421)**		(1,373)		(3,410)
Other non-current assets		**1**		**12**		18		(145)
Dividends received from investments in associates and joint ventures (Note 10)		**–**		**1**		8		33
Investments in financial assets, net		**(30)**		**(572)**		(387)		(1,443)
Net cash flows (used in) investing activities from continuing operations	**$**	**(570)**	**Ps.**	**(10,744)**	Ps.	(8,291)	Ps.	(13,710)
Net cash flows (used in) investing activities from discontinued operations	**$**	**–**	**Ps.**	**–**	Ps.	(962)	Ps.	2,820
FINANCING ACTIVITIES:								
Proceeds from borrowings		**569**		**10,736**		15,426		12,488
Repayments of borrowings		**(1,086)**		**(20,460)**		(15,957)		(13,109)
Interest paid		**(248)**		**(4,682)**		(4,984)		(4,558)
Dividends paid		**(394)**		**(7,440)**		(7,038)		(6,992)
Interest paid on lease liabilities		**(7)**		**(129)**		–		–
Payments of leases		**(26)**		**(492)**		–		–
Other financing activities		**(17)**		**(327)**		(1,682)		(2,201)
Proceeds from issuing shares (see Note 4)		**–**		**–**		–		4,082
Net cash flows (used in) financing activities for continuing operations		**(1,209)**		**(22,794)**		(14,235)		(10,290)
Net cash flows (used in) financing activities for discontinued operations		**–**		**–**		(37)		(485)
Net increase (decrease) in cash and cash equivalents from continuing operations		**(119)**		**(2,249)**		5,055		2,536
Net increase (decrease) in cash and cash equivalents from discontinued operations		**–**		**–**		963		9,035
Cash and cash equivalents at the beginning of the period		**1,258**		**23,727**		18,767		10,476
Effects of exchange rate changes and inflation effects on cash and cash equivalents held in foreign currencies		**(53)**		**(987)**		(1,058)		(3,280)
Cash and cash equivalents at the end of the period	**$**	**1,086**	**Ps.**	**20,491**	Ps.	23,727	Ps.	18,767

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

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

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

notes TO THE CONSOLIDATED STATEMENTS

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

NOTE 1. ACTIVITIES OF THE COMPANY

Coca-Cola FEMSA, S.A.B. de C.V. ("Coca-Cola FEMSA") is a Mexican corporation, mainly engaged in acquiring, holding and transferring all types of bonds, shares and marketable securities.

Coca-Cola FEMSA is indirectly owned by Fomento Economico Mexicano, S.A.B. de C.V. ("FEMSA"), which holds 47.2% of its capital stock and 56% of its voting shares and The Coca-Cola Company ("TCCC"), which indirectly owns 27.8% of its capital stock and 32.9% of its voting shares. The remaining Coca-Cola FEMSA shares trade on the Bolsa Mexicana de Valores, S.A.B. de C.V. (BMV: KOF UBL) as series "L" shares which represents 15.6% of our common equity and its American Depositary Shares ("ADS") (equivalent to ten series "L" shares) trade on the New York Stock Exchange, Inc (NYSE: KOF) as series "B" which represents 9.4% of our common equity. The address of its registered office and principal place of business is Mario Pani No. 100 Col. Santa Fe Cuajimalpa, Delegacion Cuajimalpa de Morelos, Mexico City, 05348, Mexico.

Coca-Cola FEMSA and its subsidiaries (the "Company"), as an economic unit, are engaged in the production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Central America (Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Brazil, Uruguay, Argentina and until November 2018 the Philippines.

As of December 31, 2019 and 2018 the most significant subsidiaries which the Company controls are:

COMPANY	ACTIVITY	COUNTRY	OWNERSHIP PERCENTAGE 2019	OWNERSHIP PERCENTAGE 2018
Propimex, S. de R.L. de C.V.	Manufacturing and distribution	Mexico	**100.00%**	100.00%
Controladora Interamericana de Bebidas, S. de R.L. de C.V.	Holding	Mexico	**100.00%**	100.00%
Spal Industria Brasileira de Bebidas, S.A.	Manufacturing and distribution	Brazil	**96.06%**	96.06%
Distribuidora y Manufacturera del Valle de México, S. de R.L. de C.V.	Manufacturing and distribution	Mexico	**100.00%**	100.00%
Servicios Refresqueros del Golfo y Bajío, S. de R.L. de C.V.	Manufacturing and distribution	Mexico	**100.00%**	100.00%

NOTE 2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements of Coca-Cola FEMSA S.A.B. de C.V. and its subsidiaries as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 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 John Santa Maria Otazua and Chief Financial and Administrative Officer Constantino Spas Montesinos on February 25, 2020. These consolidated financial statements and notes were approved at the Company's Board of Directors meeting on February 25, 2020. Subsequent events have been considered through that date (see Note 30). These consolidated financial statements and their accompanying notes will be presented to the Shareholders meeting on March 17, 2020. The Company´s Board of Directors and Shareholders have the authority to approve or modify the Company´s consolidated financial statements.

2.2 Basis of measurement and presentation

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

- Derivative financial instruments
- Trust assets of post-employment and other non-current 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 amortized cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationship.

The financial statements of subsidiaries whose functional currency is the currency of a hyperinflationary economy are 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 industry practices.

2.2.2 Presentation of consolidated statements of cash flows.

The Company presents its consolidated statement of cash flows using the indirect method.

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

The consolidated financial statements are stated in millions of Mexican pesos ("Ps.") and rounded to the nearest million unless stated otherwise. However, solely for the convenience of the readers, the consolidated statement of financial position as of December 31, 2019 and the consolidated income statement, the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended December 31, 2019 were converted into U.S. dollars at the exchange rate of Ps. 18.8600 per U.S. dollar as published by the Federal Reserve Bank of New York on December 31, 2019, the last date in 2019 for which information is available. This arithmetic conversion should not be construed a representation that the amounts expressed in Mexican pesos may be converted into U.S. dollars at that or any other exchange rate. As of March 6, 2020 (the issuance date of these financial statements) such exchange rate was Ps. 20.1710 per U.S. dollar, a depreciation of 7.0% since December 31, 2019.

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. 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.

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.

2.3.1 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 other depreciable long-lived assets

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

The Company assesses at each reporting date or annually whether there is an indication that a depreciable long-lived asset may be impaired. If any indication exists, the Company estimates the asset's recoverable amount. When the carrying amount of an asset or CGU in which the asset is assigned exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount, which is determined based on its value in use. In assessing value in use, the estimated future cash flows expected to be generated from the use of an asset or CGU are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If recent market transactions are not available, an appropriate valuation model is used.These calculations are corroborated by valuation multiples 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 3.17 and 13.

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

Property, plant and equipment, including returnable bottles which are expected to provide benefits over a period of more than one year, as well as intangible assets with definite useful lives are depreciated/amortized over their estimated useful lives. The Company bases its estimates on the experience of its technical personnel as well as its experience in the industry for similar assets; see Notes 3.13, 12 and 13.

2.3.1.3 Post-employment and other non-current employee benefits

The Company regularly or annually evaluates the reasonableness of the assumptions used in its post-employment and other non-current employee benefit computations. Information about such assumptions is described in Note 17.

2.3.1.4 Income taxes

Deferred income tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Company recognizes deferred tax assets for unused tax losses and other credits and regularly reviews them for recoverability, based on its judgment regarding the probability of the expected timing and level of future taxable income, the expected timing of the reversals of existing taxable temporary differences and available tax planning strategies. See Note 25.

2.3.1.5 Tax, labor and legal contingencies and provisions

The Company is subject to various claims and contingencies related to tax, labor and legal proceedings as described in Note 26. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. Management periodically assesses the probability of loss for such contingencies and accrues a provision and/or discloses the relevant circumstances, as appropriate. If the potential loss of any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a provision for the estimated loss. Management's judgment must be exercised to determine the likelihood of such a loss and an estimate of the amount, due to the subjective nature of the loss.

2.3.1.6 Valuation of financial instruments

The Company 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 21.

2.3.1.7 Business combinations

Businesses combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company to and liabilities assumed by the Company from the former owners of the acquiree, the amount of any non-controlling interest in the acquiree and the equity interests issued by the Company in exchange for control of the acquiree.

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

- 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 acquired or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquired are measured in accordance with IFRS 2, Share- based Payment at the acquisition date, see Note 3.25;
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard; and
- Indemnifiable assets are recognized at the acquisition date on the same basis as the 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 weighted average cost of capital (WACC) and estimation of inflation during the operation of intangible assets with indefinite live, mainly, distribution rights.

2.3.1.8 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 require a careful evaluation of voting rights and their impact on the Company's ability to exercise significant influence. Management considers the existence of the following circumstances, which may indicate that the Company is in a position to exercise significant influence over a less than 20 per cent-owned corporate investee:

- representation on the board of directors or equivalent governing body of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between the Company and the investee;
- interchange of managerial personnel; or
- provision to the investee of essential technical information.

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

In addition, the Company evaluates the following indicators that provide evidence of significant influence:

- the Company's extent of ownership is significant relative to other shareholdings (i.e. a lack of concentration of other shareholders);
- the Company's significant shareholders, its parent, fellow subsidiaries, or officers of the Company, hold additional investment in the investee; and
- the Company is a part of an investee's board of director committees, such as the executive committee or the finance committee.

2.3.1.9 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:

a) If all the parties, or a group of the parties, control the arrangement, considering definition of joint control, as described in Note 3.1; and
b) If decisions about the relevant activities require the unanimous consent of all the parties, or of a group of the parties

2.3.1.10 Venezuela Exchange Rates and Consolidation

As further explained in Note 3.3 below, as of December 31, 2017, the exchange rate used to translate the financial statements of the Company's Venezuelan operations for reporting purposes into the consolidated financial statements, was 22,793 bolivars per US dollar.

As also explained in Note 3.3 below, effective December 31, 2017 the Company deconsolidated its operations in Venezuela due to the political and economic environment in that country and began accounting for its investment under the under the fair value through OCI (FVOCI) method. Consequently beginning January 1, 2018, all changes in the fair value of the investment, including foreign currency translations differences will be recognized in other comprehensive income.

2.3.1.11 Leases

In connection with its accounting for arrangements that contain a lease, the Company, as a lesser considers information on assumptions and estimates that have a significant risk of resulting in an adjustment to the carrying value of right-of-use assets and lease liabilities, and related statement of income accounts, such as:

- Determination of whether the Company is reasonably certain to exercise an option to extend a lease agreement or not to exercise an option to terminate a lease agreement before its termination date, considering all the facts and circumstances that create an economic incentive for the Company to exercise, or not, such options, taking into account whether the lease option is enforceable, when the Company has the unilateral right to apply the option in question.
- Leases - Estimating the incremental borrowing rate IFRS 16.26 The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

2.4 Changes in accounting policies

The Company has applied the following amendments to the standards, which are effective for annual periods beginning on or after January 2019, their application has no significant effects:

2.4.1 IFRS 16 Leases

IFRS 16 Leases supersedes International Accounting Standard (IAS) 17, *Leases*, International Financial Reporting Interpretation Committee (IFRIC) 4, *in determining whether an Arrangement contains a Lease*, Standard Interpretation Committee (SIC) 15, *Operating Leases-Incentives and SIC 27, evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model, recognizing a right-of-use asset reflecting its right to use the underlying asset and a related lease liability for its obligation to make lease payments during the lease term. The Company has modified its accounting policy for lease contracts as a result of the standard adoption, acting only as a lessee, as detailed in Note 2.4.1 and 3.18.

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

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

- Definition of a lease

  Previously, the Company had determined at each contract inception whether an arrangement is or contains a lease under "IAS 17 – Leases" and "IFRIC 4 – Determining whether an arrangement contains a lease". Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 2.4.1 and 3.18.

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

  The Company excludes all those leases contracts with: (i) remaining lease term of less than twelve month and, (ii) those leases with an underlying low value assets with absolute terms, considering at maximum amount of $5,000 or its equivalent in other currencies.

- Accounting as a lessee

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

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

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

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

Measuring lease liabilities for leases that were classified as operating leases, the following is a reconciliation of the discounted operating lease commitments as of December 31, 2018 to the lease liability recognized upon adoption of IFRS 16:

		AS OF JANUARY 1, 2019
Operating lease commitments as of December 31, 2018	Ps.	2,455
Discounted operating lease commitments		1,976
Less: Commitments relating to short-term leases and low-value assets		(179)
Add: Commitments relating to leases previously classified as finance leases		–
Lease liabilities at the beginning of the period	Ps.	1,797

As of the date of the adoption, the weighted average incremental borrowing rate was 9.17%.

2.4.2 IFRIC 23 Uncertainty over income tax treatments

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

a) Whether an entity considers uncertain tax treatments separately;
b) The assumptions an entity makes about the examination of tax treatments by taxation authorities;
c) How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and;
d) How an entity considers changes in facts and circumstances.

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

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

i) Review of the Company's policies through which tax treatments are revised and accounted, this includes evidence from business units delivered to external advisors.
ii) Analysis of the tax memorandums prepared by the external tax advisor which support the Company's tax treatment over an uncertain tax position about a) how tax earnings (losses) are calculated, b) how tax basis or losses are applied, c) tax credits not applied, and d) how tax rates in different jurisdictions are considered.
iii) Documentation of the tax correspondence received in the Company's and subsidiaries business units in order to analyze any recent resolution adopted from the tax authority regarding tax positions,
iv) Analysis of the tax position report of the Company on a monthly basis.

The Company concluded that there were no significant impacts on the consolidated financial statements derived from the adoption of the IFRIC 23, However, IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes, which helped the Company to strengthen the corporate policy in this matter. The amount of uncertain income tax positions is included in Note 26.6.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2019. 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 arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- 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, revenues and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements of revenues 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, revenues, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

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

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

3.1.1 Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore they are recognized entirely in equity without applying acquisition accounting. 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. When evaluating control, the Company considers 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 acquired. 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 acquiree 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's 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 issue 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 re- measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent considerations are recognized in consolidated net income.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete and discloses that its allocation is preliminary in nature. Those provisional amounts are adjusted during the measurement period (not greater than 12 months from the acquisition date), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

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

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

i. The acquiree repurchases a sufficient number of its own shares for the Company to obtain control.
ii. Minority veto rights expire that previously kept the Company from controlling an acquiree in which it held the majority voting rights.
iii. The Company and the acquiree agree to combine their businesses by contract alone in which it transfers no consideration in exchange for control and no equity interest is held in the acquiree, either on the acquisition date or previously.

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

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

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

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

Foreign exchange differences on monetary items are recognized in profit or loss. Their classification in the income statement depends on their nature. Differences arising from fluctuations related to operating activities are presented in the "other expenses" line (see Note 20) while fluctuations related to non-operating activities such as financing activities are presented as part of "foreign exchange gain (loss)" line in the income statement.

For incorporation into the Company's consolidated financial statements, each foreign subsidiary, associate 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 to 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-inflationary 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 only if the exchange rate does not fluctuate significantly.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of exchange differences on translation of foreign subsidiaries and associates 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 exchange differences on translation of foreign subsidiaries and associates 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 are recognized in equity as part of the exchange differences on translation of foreign subsidiaries and associates.

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

		EXCHANGE RATES OF LOCAL CURRENCIES TRANSLATED TO MEXICAN PESOS (1)				
		AVERAGE EXCHANGE RATE FOR			EXCHANGE RATE AS OF DECEMBER 31,	
COUNTRY OR ZONE	FUNCTIONAL COIN	2019	2018	2017	2019	2018
Mexico	Mexican peso	**Ps. 1.00**	Ps. 1.00	Ps. 1.00	**Ps. 1.00**	Ps. 1.00
Guatemala	Quetzal	**2.50**	2.56	2.57	**2.45**	2.54
Costa Rica	Colon	**0.03**	0.03	0.03	**0.03**	0.03
Panama	U.S Dollar	**19.26**	19.24	18.93	**18.85**	19.68
Colombia	Colombian peso	**0.01**	0.01	0.01	**0.01**	0.01
Nicaragua	Cordoba	**0.58**	0.61	0.63	**0.56**	0.61
Argentina	Argentine peso	**0.41**	0.73	1.15	**0.31**	0.52
Brazil	Reais	**4.89**	5.29	5.94	**4.68**	5.08
Philippines	Philippine peso	**NA**	0.37	0.38	**NA**	0.37
Uruguay	Uruguayan peso	**0.55**	0.63	0.66	**0.51**	0.61

(1) Exchange rates published by the central bank of each country

Venezuela

Effective December 31, 2017, the Company determined that the conditions in Venezuela had led the Company to no longer meet the accounting criteria to consolidate its Venezuelan operations. Such deteriorating conditions had significantly impacted the Company's ability to manage its capital structure, its capacity to import and purchase raw materials and had imposed limitations on the portfolio dynamics. In addition, certain government controls over pricing of some products, labor law restrictions and ability to obtain US Dollars and imports, have affected the normal course of business. Therefore, and due to the fact that its Venezuelan operations will continue, as of December 31, 2017, the Company changed the method of accounting for its investment in Venezuela from consolidation to fair value method measured using a Level 3 concept and recognized as of December 31, 2017.

As a result of the deconsolidation, the Company recorded an extraordinary loss in other expenses line of Ps. 28,176 for the year ended in December 31, 2017. Such charge includes the reclassification of Ps. 26,123 (see Note 20) previously recorded in exchange differences on translation of foreign subsidiaries and associates in equity, to the income statement and impairment charges as follows, Ps. 745 of distribution rights, Ps. 1,098 of property plant and equipment and Ps 210 of re-measurement at fair-value of the Venezuelan's investment.

Prior to deconsolidation, during 2017, the Company's Venezuela operations contributed Ps. 4,005 to net sales and losses of Ps. (2,223) to net income. See also Note 27 for additional information about the Venezuelan operations.

Beginning on January 1, 2018, the Company recognized its investment in Venezuela under the fair value through OCI (FVOCI) method upon adoption of the new IFRS 9 standard. Consequently, the Company no longer includes the results of the Venezuelan operations in its Consolidated Financial Statements as explained in the Note 2.3.1.10.

Exchange rate

Until December 31, 2017, the Company's recognition of its Venezuelan operations involved a two-step accounting process in order to translate into bolivars all transactions in a different currency than bolivars and then to translate the bolivar amounts to Mexican Pesos.

Step-one: Transactions were 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 were 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.

Step-two: In order to integrate the results of the Venezuelan operations into the consolidated figures of the Company, such Venezuelan results were translated from Venezuelan bolivars into Mexican pesos.

On December 2017, the Company translated the Venezuela entity figures using an exchange rate of bolivars. 22,793 per USD, as such exchange rate better represented the economic conditions in Venezuela. The Company considers that this exchange rate provides more useful and relevant information related to the Venezuela´s financial position, financial performance and cash flows. On January 30, 2018, a new auction of the DICOM conducted by the Venezuela government resulted in an estimated exchange rate of Bolivars. 30,987 per Eu (equivalent to 25,000 per USD).

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

Beginning on July 1, 2018, Argentina became a hyperinflationary economy because, among some other economic factors, the last three years cumulative inflation in Argentina exceeded 100% according to the several economic indexes that exist in the country. For being considered hyperinflationary, the financial information for our Argentine subsidiary has been adjusted to recognize the inflationary effects since January 1, 2018 through:

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

The Company restates the financial information of subsidiaries that operate in hyperinflationary economic environment using the consumer price index (CPI) of each country.

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

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

COUNTRY	CUMULATIVE INFLATION 2017- 2019	TYPE OF ECONOMY	CUMULATIVE INFLATION 2016- 2018	TYPE OF ECONOMY	CUMULATIVE INFLATION 2015- 2017	TYPE OF ECONOMY
Mexico	13.2%	Non-hyperinflationary	15.7%	Non-hyperinflationary	12.7%	Non-hyperinflationary
Guatemala	11.8%	Non-hyperinflationary	12.2%	Non-hyperinflationary	13.5%	Non-hyperinflationary
Costa Rica	5.8%	Non-hyperinflationary	5.7%	Non-hyperinflationary	2.5%	Non-hyperinflationary
Panama	0.5%	Non-hyperinflationary	2.1%	Non-hyperinflationary	2.3%	Non-hyperinflationary
Colombia	11.0%	Non-hyperinflationary	13.4%	Non-hyperinflationary	17.5%	Non-hyperinflationary
Nicaragua	15.6%	Non-hyperinflationary	13.1%	Non-hyperinflationary	12.3%	Non-hyperinflationary
Argentina	179.4%	Hyperinflationary	158.4%	Hyperinflationary	101.5%	Non-hyperinflationary
Brazil	11.1%	Non-hyperinflationary	13.1%	Non-hyperinflationary	21.1%	Non-hyperinflationary
Uruguay	22.0%	Non-hyperinflationary	25.3%	Non-hyperinflationary	NA	Non-hyperinflationary
Philippines	NA	Non-hyperinflationary	11.9%	Non-hyperinflationary	7.5%	Non-hyperinflationary

3.5 Cash and cash equivalents

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

The Company also maintains restricted cash held as collateral to meet certain contractual obligations (see Note 6). 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 within the following business models depending on the Administration's objective: (i) "hold to maturity to collect contractual cash flows", (ii) "hold to collect contractual cash flows and sell financial assets" and (iii) "Others or hold to negotiate" or as derivatives assigned in hedging instruments with an effective hedge, as appropriate. The classification depends on the nature and purpose of the financial assets and will be determined at the time of initial recognition.

The Company performs a portfolio – level assessment of the business model objective in which a financial asset is held to reflect the best way in which the business manages the financial asset and the manner in which the information is provided to the management of the Company. The information that is considered within the evaluation includes:

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

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

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

The fair value of an asset is measured using assumptions that would be used by market participants when valuing the asset, assuming that market participants act in the best economic interest.

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

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

3.6.1 Financial assets at amortized cost

A financial asset is measured at amortized cost if it meets the following two conditions and isn't designated as Fair value through Profit and loss (FVTLP):

- It's managed within a business model whose objective is to maintain financial assets to recover the contractual cash flows; and
- The contractual terms are only payments at specified dates of the principal and interest on the amount of the outstanding principal Solely payments of principal and interest ("SPPI").

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

3.6.1.1 Effective interest rate method (ERR)

The effective interest rate method is a method to calculate the amortized cost of loans, accounts receivables and other financial assets (designated as held-to-maturity) and to allocate interest income / expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that represents 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 the initial recognition.

3.6.2 Financial assets at fair value with changes in other comprehensive income ("OCI")

A financial asset is measured as FVOCI if it meets the following two conditions and isn't designated as FVTPL:

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

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

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

3.6.3 Financial assets at fair value through profit and loss (FVTPL)

Financial assets designated as fair value through profit and loss (FVTPL) includes financial assets held for trading and financial assets designated at initial recognition as fair value through profit and loss. Financial assets are classified as held for trading if they are acquired to be sold in the short term. Derivatives, including implicit derivatives are also designated as held for trading unless they are designated as effective hedging instruments as defined in IFRS 9. Financial assets as fair value through profit and loss are registered in the balance sheet at fair value with the net changes in the fair value presented as financial expense (negative changes in fair value) or financial income (positive net changes in fair value) in profit and loss statement.

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

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

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

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

3.6.5 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 receivable with a stated term (including trade and other receivable) 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 receivable when the recognition of interest would be immaterial. For the years ended December 31, 2019, 2018 and 2017 the interest income on loans and receivables recognized in the interest income line item within the consolidated income statements is Ps. 5, Ps. 5 and Ps. 4, respectively.

3.6.6 Other financial asset

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

3.6.7 Financial assets impairment

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

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

Impairment losses on accounts receivable, contractual assets and leasing receivables are always measured at an amount equal to the expected loss of credit for life, whether or not it has a significant component. The Company applies the criteria to all accounts receivable, contractual assets and leasing credits, but it can be applied separately to accounts receivable and contractual assets of financial leases.

The Company measures impairment losses at an amount equal to ECL for life, except for the following:

- Debt instruments determined to be of low credit risk; and
- Other debt instruments and bank balances for which the credit risk (risk of non- recoverability over the expected life of the financial instrument) hasn't increased significantly since the initial recognition.

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

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

The Company annually evaluates the reasonableness to determine if there was objective evidence of impairment. Some objective evidence that financial assets were impaired includes:

- Non-payment or delinquency of a debtor;
- Restructuring of an amount corresponding to the Company under terms that the Company would not otherwise consider;
- Indicators that a debtor or client will incur into bankruptcy;
- Adverse changes in the status of debtor or client payments;
- The disappearance of an active market for an instrument due to financial difficulties; or
- Evident information indicating that there was a measurable decrease in the expected cash flows of a group of financial assets.

For an investment within a capital instrument, objective evidence of impairment includes a significant or prolonged decrease in its fair value lower than the carrying amount.

The impairment loss on financial assets measured at amortized cost is reduced from the carrying amount and for financial assets measured at FVOCI, the impairment loss is recognized within OCI.

3.6.8 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 the asset cash flows or has assumed an obligation to pay the full received cash flows 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 or retained substantially all the asset risks and benefits, but has transferred control of the asset.

3.6.9 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 if 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 U.S. Dollar 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, recognized in the financial sector. Changes in the fair value of derivative financial instruments are recorded each year in current earnings otherwise as a component of cumulative other comprehensive income based on the item being hedged and the effectiveness of the hedge.

3.7.1 Hedge accounting

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

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

3.7.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the hedging 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 statements of income.

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 profit and loss statement, in the same line of the consolidated statement of income 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.

3.7.3 Fair value hedges

For hedge items carried at fair value the change in the fair value of a hedging derivative is recognized in profit and loss statement as foreign exchange gain or loss, as they relate to foreign currency risk. 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 statement of profit or loss as foreign exchange gain or loss.

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

3.7.4 Hedge of net investment in a foreign business

The Company designates certain debt securities as a hedge of its net investment in foreign subsidiaries and applies hedge accounting to foreign currency differences arising between the functional currency of its investments abroad and the functional currency of the holding company (Mexican peso), regardless of whether the net investment is held directly or through a sub-holding. Differences in foreign currency that arise in the conversion of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income in the exchange differences on the translation of foreign operations and associates caption , to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized as market value gain or loss on financial instruments within the consolidated income statements. When part of the hedge of a net investment is disposed, the corresponding accumulated foreign currency translation effect is recognized as part of the gain or loss on disposal within the consolidated income statement.

3.8 Fair value measurement

The Company measures financial instruments, such as, derivatives, and certain non-financial assets such as trusts assets of labor obligations at fair value at each balance sheet date. Also, fair values of bank loans and notes payable carried at amortized cost are disclosed in Note 19.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

The Company determines the policies and procedures for both recurring fair value measurement, such as those described in Note 21 and unquoted liabilities such as debt described in Note 19.

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

3.9 Inventories and cost of goods sold

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

Inventories represent the acquisition or production cost which is incurred when purchasing or producing a product, and are based on the weighted average cost formula.

Cost of goods sold is based on 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.

3.10 Held for sale long lived assets and discontinued operations

The Company classifies the long lived assets as held for sell when:

a) It is expected to be recovered principally through the sale, instead of being recovered through its operational continuous use.
b) The assets are maintained as held for its immediately sale and;
c) The assets sale is considered as highly possible in its actual condition.

For considering a sale as highly possible:

- Management should be engaged with a sales plan.
- It must be started an active plan to locate a buyer and complete this plan.
- The asset must be actively valued to its sale in a reasonable price related to its fair value.
- The sale is expected to be completed in less than one year term beginning on the date classification.

The non-current assets held for sale are measured at the lower value between the carrying value and the fair value less the disposal cost.

The discontinued operations are the cash flows and operations that can be clearly distinguished from the rest of the entity operations that have been disposed or classified has held for sale, and:

- Represents a business part or geographic area
- Are part of a coordinated plan to dispose of a business part or a geographic part of its operation
- It is a subsidiary acquired exclusively with selling proposes.

The discontinued operations excludes the continuing operations results and they are presented separately in the profit and loss statement after taxes in a line denominated "Discontinued operations"

Regarding Philippines disposal additional disclosure is provided in Note 5. All of the financial statements includes amounts for discontinued operations unless it is indicated explicitly otherwise.

3.11 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, product promotion and 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, and are unrecognized in the consolidated statement of financial position and recognized in the appropriate consolidated income statement caption when the risks and rewards of the related goods have 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 paid in advance. These expenses are generally amortized over the period based on the transmission of the television and radio spots. The related production costs are recognized in consolidated income statement as incurred.

The Company has agreements with customers for the right to sell and promote the Company'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. During the years ended December 31, 2019, 2018 and 2017, such amortization aggregated to Ps. 273, Ps. 277 and Ps. 759, respectively.

3.12 Investments in other entities

3.12.1 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 share of net assets of the associate since the acquisition date. The financial statements of the associates are prepared for the same reporting period as the Company.

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 or has made 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 accounted for using the equity method in the consolidated statements of income.

3.12.2 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.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. As of December 31, 2019 and 2018 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.

3.12.3 Investment in Venezuela

As disclosed in Note 3.3, on December 31, 2017 the Company changed the method of accounting for its investment in Venezuela from consolidation to fair value method through OCI using a Level 3 concept and recognized as of December 31, 2019, 2018 and 2017 a fair value loss on the investment Ps. 216, Ps. 1,039 and Ps. 210 respectively. Gains and losses on the investment since January 1, 2018 are recognized in OCI.

3.13 Property, plant and equipment

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

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

Construction 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 acquisition cost. 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	40 – 50
Machinery and equipment	10 – 20
Distribution equipment	7 – 15
Refrigeration equipment	5 – 7
Returnable bottles	1.5 – 3
Other equipment	3 – 10

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

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

Returnable and non-returnable bottles:

The Company has two types of bottles: returnable and non-returnable.

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

There are two types of returnable bottles:

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

Returnable bottles that have been placed in the hands of customers are subject to an agreement with a retailer pursuant to which the Company retains ownership. These bottles are monitored by sales personnel during periodic visits to retailers and the Company 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.

The Company’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.

3.14 Borrowing costs

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

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

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

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

3.15 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. Expenditures that do not fulfill the requirements for capitalization are expensed as incurred.

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.

As of December 31, 2019, the Company had four bottler agreements in Mexico: (i) the agreements for the Valley of Mexico territory, which is up for renewal in June 2023, (ii) the agreement for the Southeast territory, which is up for renewal in June 2023, (iii) the agreement for the Bajio territory, which is up for renewal in May 2025 and (iv) the agreement for the Golfo territory, which is up for renewal in May 2025. As of December 31, 2019, the Company had two bottler agreements in Brazil which are up for renewal in October 2027; As of December 31, 2019, the Company had three bottler agreements in Guatemala, which are up for renewal in March 2025 and April 2028 (two contracts).

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

As of December 31, 2019, our investee KOF Venezuela had one bottler agreement, which is up for renewal in August 2026.

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 the Company 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.

3.16 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.

3.17 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 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 the related CGU might exceed its recoverable amount.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted, as discussed in Note 2.3.1.1.

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

Where the conditions leading to an impairment loss no longer exist, it is subsequently reversed, that is the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in consolidated net income. Impairment losses related to goodwill are not reversible. For the year ended December 31,2019 and 2018 there was no impairment recognized.

For the year ended December, 31 2017 the Company recognized an impairment loss in long-lived assets used in the operation in Venezuela relating to property, plant and equipment for Ps.1,098 and distribution rights for Ps.745. See Note 12 and 13, respectively.

3.18 Leases

In accordance with IFRS 16, the Company evaluates whether a contract is, or contains a lease when the contract transfers the right to control an identified asset during a period in exchange for a consideration.

The Company evaluates whether a contract is a lease agreement when:

- The contract involves the use of an identified asset - this can be specified explicitly or implicitly, and must be physically different or represent substantially the entire capacity of a physically different asset. If the lessor has substantive substitution rights, the asset is not identified;
- The Company has the right to receive substantially all the economic benefits of the use of the asset throughout the period of use;
- The Company has the right to direct the use of the asset when it has the right to make the most relevant decisions about how, and what is the purpose of the asset. When the use of the asset is predetermined, the Company has the right to direct the use of the asset if: i) it has the right to operate the asset; or ii) the default asset design determine for what purpose it will be use.

As a tenant

Initial measurement

On the start date of the lease, the Company recognizes a right-of-use-asset and a leasing liability. The right-of-use asset is initially measured at cost, which includes the initial amount of the lease liability adjusted for any lease payment made during or before the initial application date. The right-of-use asset considers the incurred initial direct costs and an estimate of the costs to dismantle and eliminate the underlying asset, or to restore the underlying asset or the place where it is located, less any lease incentive received.

The lease liability is initially measured at the present value of future lease payments for the period remaining at the date of initial application. Such payments are discounted using the incremental borrowing rate of the Company, which is considered as the rate that the Company would have to pay for a similar period financing, and with a similar guarantee, to obtain an asset of similar value to the leased asset. For the Company, the discount rate used to measure the right-of-use asset and the lease liability is the rate related to the Company's financing cost.

Lease payments included in the measurement of the lease liability include the following:

- Fixed payments, including payments that are substantially fixed;
- Variable lease payments that depends of an index or a rate, initially measured using the index or the rate as of the lease beginning date;
- The price related to a purchase option that the Company has reasonable exercising certainty, an option to extend the contractual agreement and penalties for early termination of the lease agreement, unless the Company has reasonable certainty of not exercising those options.
- Amounts payable for residual value guarantees;
- Payments for early cancellation, if this option is contemplated due to the lease conditions.

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

Subsequent Measurement

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

Lease liabilities are subsequently measured at amortized cost using the effective interest rate method. The Company re-measures the lease liability without modifying the incremental discount rate when there is a modification in future lease payments under a residual value guarantee or if the modification arises from a change in the index or rate when they are variable payments. The lease liability is measured again using a new incremental discount rate at the date of modification when:

- An option to extend or terminate the agreement is exercised by modifying the non-cancelable period of the contract;
- The Company changes its assessment of whether it will exercise a purchase option.

When the lease liability is measured again, an adjustment is made corresponding to the carrying amount of the asset by right of use, or is recorded in profit or loss if the carrying amount of the asset by right of use has been reduced to zero.

A modification to the lease agreement is accounted for as a separate agreement if the following two conditions are met:

i) The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
ii) The consideration of the lease is increased by an amount proportional to the independent price of the increase in scope and by any adjustment to that independent price to reflect the contract circumstances.

In the consolidated statements of income and comprehensive income, the interest expense of the lease liability is presented as a component of the financial expense, unless they are directly attributable to qualified assets, in which case they are capitalized according to the Company financing cost accounting policy. The right-of-use assets are measured according to the cost model, depreciated during the lease term in a straight line and recognized in the consolidated statement of income.

Improvements in leased properties are recognized as part of property, plant and equipment in the consolidated statement of financial position and amortized using the straight-line method, for the shortest period between the useful life of the asset and the term of the related lease.

As property owner.

The Company as lessor determines at the beginning of the lease, if each agreement is classified as an operating or financial lease.

Leases are classified as financial leases when under the terms of the lease agreement substantially all the risks and rewards of the underlying asset have been transferred, otherwise, lease agreements are classified as operating leases. The Company considers some of the following indicators, among others; to analyze whether substantially all the inherent risks and benefits are transferred:

- If the lease is for most of the useful life of the asset;
- If the minimum future lease payments are compared with the underlying asset fair value.

The Company recognizes payments for operating leases received as income in a straight line during the term of the lease within the consolidated statements of income, except when another systematic basis best represents the time pattern in which the economic benefits of the leased asset are transferred.

The Company initially recognizes an equal amount to the lease net investment, which is the present value of future lease payments plus any residual value guarantee; and the portion is included between the circulating portion of collections with a maturity of less than or equal to a 12-month term and non-current collections, that is, with a maturity of more than 12 months; including:

(i) fixed payments including those lease that in substance are fixed, which may involve variability, but essentially unavoidable, less any lease incentive to be collected;
(ii) payments for variable rent that depend on an index or a rate as of the start date of the lease;
(iii) amounts payable by the lessee for residual value guarantees (if applicable);
(iv) the price related to a purchase option if the lessee is reasonably sure to exercise it (if applicable); and
(v) Payments for penalties arising from the termination of the lease, if the term of the lease reflects that the lessee will exercise an option to terminate the lease.

Intercompany transactions related to transactions among lessors and lessees within the Group are eliminated in the Company consolidation process.

3.19 Financial liabilities and equity instruments

3.19.1 Classification as debt or equity

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

3.19.2 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.

3.19.3 Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

3.19.4 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 statements of income when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated considering 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 statements of income.

De-recognition

A financial liability is derecognized when the obligation under the liability is discharged or 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 de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of income.

3.20 Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

The Company recognizes a provision for a loss contingency when it is probable (i.e. the probability that the event will occur is greater than the probability that it will not) that certain effects related to past events, would materialize and can be reasonably quantified. These events and their financial impact are also disclosed as loss contingencies in the consolidated financial statements when the risk of loss is deemed to be other than remote. The Company does not recognize an asset for a gain contingency until the gain is realized, see Note 26.

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

3.21 Post-employment and other non-current employee benefits

Post-employment and other non-current employee benefits, which are considered to be monetary items, include obligations for pension and post-employment plans and seniority premiums, all based on actuarial calculations, using the projected unit credit method.

In Mexico, the economic 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 defined benefit retirement plans and other non-current employee benefits, such as the Company's sponsored pension and retirement plans and seniority premiums, 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 re-measurements effects of the Company's defined benefit obligation such as actuarial gains and losses and return on plan assets minus the discount rate 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 statements of income. The Company presents net interest cost within interest expense in the consolidated statements of income. 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 and seniority premiums through irrevocable trusts of which the employees are named as beneficiaries, which serve to decrease the funded status of such plans' related obligations.

Costs related to compensated absences, such as vacations and vacation premiums, are recognized on an accrual basis.

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

a. When it can no longer withdraw the offer of those benefits; and
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 the Company enters into a transaction that eliminates all further legal of constructive obligations or part or all of the benefits provided under a defined benefit plan. A curtailment arises from an isolated event such as closing of a plant, discontinuance of an operation or termination or suspension of a plan. Gains or losses on the settlement or curtailment of a defined benefit plan are recognized when the settlement or curtailment occurs.

3.22 Revenue recognition

The Company recognizes revenue when it has transferred to the client control over the good sold or the service rendered. Control refers to the ability of the client to direct and obtain substantially all the transferred product's benefits. Also, it implies that the customer has the ability to prevent a third-party from directing the use and obtaining substantially all the benefits of the transferred product. Coca-Cola FEMSA's management applies the following considerations to analyze the moment in which the control of the good sold or the service is transferred to the client

- Identify the contract (written, spoken or according to the conventional business practices)
- Evaluate the goods and services engaged in the client's contract and identify the related performance obligations.
- Consider the contract terms and the commonly accepted practices in the business to determine the transaction price. The transaction price is the consideration that the Company expects to be entitled for transferring the goods and services engaged with the client, excluding the collected amount for third parties, such as taxes directly related to the sales. The consideration engaged in a customer's contract may include fixed amount, variable amounts or both of them.
- Allocate the transaction price to each performance obligation (to each good or service that is different) for an amount that represents the part of the benefit that the Company expects to receive in exchange for the right of transferring the goods or services engaged with the client.
- Recognize revenue when (or while) it satisfied the performance obligation through the transfer of the goods or services engaged.

All of the conditions mentioned above are accomplished normally when the goods are delivered and services are provided to the customer and this moment is considered a point in time. The net sales reflect the units delivered at list price, net of promotions and discounts.

The Company generates revenues for the following principal activities:

Sale of goods.

It includes the sales of goods by all the subsidiaries of the Company, mainly the sale of beverages of the leading brand of Coca-Cola in which the revenue is recognized in the point of time those products were sold to the customers.

Rendering of services.

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

- The customer receives and consume simultaneously the benefits, as the Company satisfies the performance obligation;
- The customer controls related assets, even if the Company improve them;
- The revenues can be measured reliably; and
- The Company has the right to payment for the performance completed to date.

SOURCES OF REVENUE		FOR THE YEAR ENDED DECEMBER 31, 2019			FOR THE YEAR ENDED DECEMBER 31, 2018		FOR THE YEAR ENDED DECEMBER 31, 2017
Revenues sale of products	**Ps.**	**192,342**		Ps.	181,823	Ps.	182,850
Services rendered		**385**			330		262
Other operating revenues		**1,744**	(1)		189		144
Revenue from contracts with customers	**Ps.**	**194,471**		Ps.	182,342	Ps.	183,256

(1) Related tax effect in Brazil associated to sales taxes paid in excess in prior years (PIS/COFINS) – See Note 25.2.1.

Variable allowances granted to customers

The Company adjusts the transaction price based on the estimations of the promotions, discounts or any other variable allowances that may be grantable to the customers. These estimations are based on the commercial agreements celebrated with the customers and in the historical performance predicted for the customer.

Contracts costs

The incremental costs for obtaining a customer contracts are recognized as an asset if the Company expects to recover the costs associated to them. The incremental costs are those in which you incur to obtain a contract and that wouldn't be generated if the contract hadn't been obtained. The Company recognizes these costs as an expense in the profit and loss statement when the associated income is realized in a period equal or less than one year. The recognized assets, as previously indicated, is amortized in a systematic way as goods and services are transferred to the client in such way that the asset will be recognized in the profit and loss statement through its amortization in the same period that revenue is accountably recognized.

3.23 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 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, depreciation of returnable bottles in the distribution process, depreciation and maintenance of trucks and other distribution facilities and equipment. For the years ended December 31, 2019, 2018 and 2017, these distribution costs amounted to Ps. 25,068, Ps. 23,421 and Ps. 25,041, respectively;
- Sales: labor costs (salaries and other benefits including PTU) and sales commissions paid to sales personnel;
- 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 being decreased; and b) payments exempt from taxes for the employees are fully deductible in the PTU computation.

3.24 Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are charged to consolidated income statements as they are incurred, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

3.24.1 Current income taxes

Current income taxes are recorded in the results of the year they are incurred.

3.24.2 Deferred income taxes

Deferred tax are recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, including tax loss carry-forwards and certain tax credits, to the extent that it is probable that future taxable profits, reversal of existing taxable temporary differences will be available against which those deductible temporary differences can be utilized after considering future tax planning strategies. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In the case of Brazil, where certain goodwill amounts are at times deductible for tax purposes, the Company recognizes in connection with the acquisition accounting a deferred tax asset for the tax effect of the excess of the tax basis over the related carrying value.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit and reversal of existing taxable temporary differences will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. 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 and reversal of existing taxable temporary differences 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 non-current asset or liability, regardless of when the temporary differences are expected to reverse.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

In Mexico, the income tax rate is 30% for 2019, 2018 and 2017. As a result of the Mexican Tax Reform mentioned in note 25.3, for the year 2020 the country will continue with a tax rate of 30%.

3.25 Share-based payments transactions

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 FEMSA. They are accounted for as equity settled transactions. The award of equity instruments is granted for a fixed monetary value.

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 share-based payments is expensed and recognized based on the graded vesting method over the vesting period.

3.26 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its shares. As described in Note 24, the Company has potentially dilutive shares and therefore presents its basic and diluted earnings per share. 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 calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. Earnings per shares for all periods are adjusted to give effect to capitalizations, bonus issues, share splits or reverse share splits that occur during any of periods presented and subsequent to the latest balance sheet date until the issuance date of the financial statements.

3.27 Issuance of common shares

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

NOTE 4. MERGERS AND ACQUISITIONS

4.1 Mergers and Acquisitions

The Company has consummated certain business mergers and acquisitions during 2018 and 2017 that 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 respective business, as disclosed below. Therefore, the consolidated statements of income and the consolidated statements of financial position in the year of such acquisitions are not comparable with previous periods. The consolidated statements of cash flows for the years ended December 31, 2019, 2018 and 2017 show the consideration paid for the merged and acquired operations net of the cash acquired in those mergers and acquisitions.

While all of the acquired companies disclosed below are bottlers of Coca-Cola trademarked beverages, such acquired entities were not under common ownership or control prior to the acquisition.

4.1.1 Other acquisitions

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

The allocation of the consideration paid to the fair value of net assets acquired is as follows.

Total current assets, including cash adquired of Ps. 860	**Ps.**	**1,864**
Total other non current assets		**4,031**
Distribution rights		**1,715**
Total assets		**7,610**
Total liabilities		**(3,961)**
Net assets acquired		**3,649**
Goodwill		**2,903**
Total consideration transferred		**6,552**
Cash acquired		**(860)**
Net cash paid	**Ps.**	**5,692**

(1) As of result of the purchase price allocation, which was finalized in 2019, additional fair value adjustments from those recognized in 2018 have been recognized as follow: total noncurrent assets amounted of Ps. 236, distribution rights of Ps. 2,887 and goodwill of Ps. 2,903

The Company expects to recover the goodwill amount through the synergies related to the available production capacity.

The information for the profit and loss statements of these acquisitions for the period between the acquisition date and December 31, 2018 is as follows:

PROFIT AND LOSS STATEMENTS		2018
Total revenue	Ps.	4,628
Income before taxes		496
Net income		413

Unaudited Pro Forma Financial Data.

The following unaudited 2018 consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to other acquisitions in the period, as if the acquisition had occurred on January 1, 2018; and certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired group of companies.

UNAUDITED PRO FORMA FINANCIAL INFORMATION		2018
Total revenues	Ps.	185,737
Income before taxes		17,763
Net income		15,500

NOTE 5. DISCONTINUED OPERATIONS

On August 16, 2018, Coca- Cola FEMSA announced its decision to exercise the Put Option to sell its 51% of the Coca- Cola FEMSA Philippines, Inc. (CCFPI) to The Coca- Cola Company. Such decision was approved by the Company's board on August 6, 2018. Consequently, beginning August 31, 2018, CCFPI had been classified as an asset held for sale and its operations as a discontinued operation in the financial statements for December 31, 2017 and 2018. Previously CCFPI represented the Asia division and was considered an independent segment until December 31, 2017. Since its designation as discontinued operation, the Asia segment is no longer a separate segment in Note 27. The sale was completed on December 13, 2018, with the following results.

a) Discontinued operations results.

A summary of the discontinued operation results for the years ended December 31, 2018 and 2017 is shown below:

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

(1) Cash and cash equivalent balances of Philippines operations on the date of sale were Ps. 6,898.

NOTE 6. CASH AND CASH EQUIVALENTS

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

		2019		2018
Cash and bank balances	**Ps.**	**4,641**	Ps.	7,778
Cash equivalents (see Note 3.5)		**15,850**		15,949
	Ps.	**20,491**	Ps.	23,727

NOTE 7. TRADE RECEIVABLE, NET

		2019		2018
Trade receivables	**Ps.**	**11,277**	Ps.	11,726
The Coca-Cola Company (related party) (Note 15)		**802**		1,173
Loans to employees		**56**		77
FEMSA and subsidiaries (related parties) (Note 15)		**2,039**		783
Other related parties (Note 15)		**614**		575
Other		**1,181**		1,108
Allowance for expected credit losses		**(493)**		(595)
	Ps.	**15,476**	Ps.	14,847

7.1 Trade receivables

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

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

Because less than the 2.3% of the trade receivables is unrecoverable, the Company does not have any customers classified as "high risk" which would be eligible to have special management conditions for the credit risk. As of December 31, 2019, the Company does not have a representative group of customers directly related to the expected loss.

The allowance for credit losses is calculated with an expected losses model that recognizes the impairment losses through all the contract life. For this particular event, because they generally are short-term accounts receivable, the company defined a model with a simplified expected loss focus through a parametric model. The parameters used in the model are:

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

The carrying value of accounts receivable approximates its fair value as of December 31, 2019 and 2018.

AGING FOR TRADE RECEIVABLES PAST DUE BUT NOT IMPAIRED		2019		2018
0 days	**Ps.**	**12,630**	Ps.	12,578
1-30 days		**1,448**		1,045
31-60 days		**672**		193
61-90 days		**153**		310
91-120 days		**90**		17
121 + days		**483**		704
Total	**Ps.**	**15,476**	Ps.	14,847

7.2 Changes in the allowance for expected credit losses

		2019		2018		2017
Balance at the beginning of the year	**Ps.**	**595**	Ps.	468	Ps.	451
Effect of adoption of IFRS 9		**—**		87		—
Allowance for the year		**314**		153		40
Charges and write-offs of uncollectible accounts		**(397)**		23		(62)
Added in business combinations		**4**		1		86
Effects of changes in foreign exchange rates		**(23)**		(55)		(45)
Effect of Venezuela (See Note 3.3)		**—**		—		(2)
Effect of Philippines (Note 5)		**—**		(82)		—
Balance at the end of the year	**Ps.**	**493**	Ps.	595	Ps.	468

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.

7.3 Payments from The Coca-Cola Company:

The Coca-Cola Company participates in certain advertising and promotional programs as well as in the Company's refrigeration equipment and returnable bottles investment program. Contributions received by the Company for advertising and promotional incentives are recognized as a reduction in selling expenses and contributions received for the refrigeration equipment and returnable bottles investment program are recorded as a reduction in the carrying amount of refrigeration equipment and returnable bottles items. For the years ended December 31, 2019 2018 and 2017 contributions due were Ps. 2,274, Ps. 3,542, and Ps. 4,023, respectively.

NOTE 8. INVENTORIES

		2019		2018
Finished products	**Ps.**	**3,996**	Ps.	3,956
Raw materials		**3,657**		3,074
Non-strategic spare parts		**1,006**		1,155
Inventories in transit		**1,340**		1,311
Packing materials		**240**		239
Other		**299**		316
	Ps.	**10,538**	Ps.	10,051

For the years ended as of December 31, 2019, 2018 and 2017, the Company recognized write-downs of its inventories for Ps. 244, Ps. 122 and Ps. 185, respectively to net realizable value.

For the years ended as of December 31, 2019, 2018 and 2017, changes in inventories are comprised as follows and included in the consolidated income statement under the cost of goods sold caption:

		2019		2018		2017
Changes in inventories of finished goods and work in progress	**Ps.**	**24,676**	Ps.	21,457	Ps.	21,412
Raw materials and consumables used		**79,520**		75,078		80,318
Total	**Ps.**	**104,196**	Ps.	96,535	Ps.	101,730

NOTE 9. OTHER CURRENT ASSETS AND OTHER CURRENT FINANCIAL ASSETS

9.1 Other Current Assets:

		2019		2018
Prepaid expenses	**Ps.**	**1,354**	Ps.	1,876
Agreements with customers		**294**		146
	Ps.	**1,648**	Ps.	2,022

Prepaid expenses as of December 31, 2019 and 2018 are as follows:

		2019		2018
Advances for inventories	**Ps.**	**1,240**	Ps.	1,311
Advertising and promotional expenses paid in advance		**89**		509
Advances to service suppliers		**—**		1
Prepaid insurance		**25**		24
Others		**—**		31
	Ps.	**1,354**	Ps.	1,876

Advertising and promotional expenses was recorded in the consolidated income statements for the years ended December 31, 2019, 2018 and 2017 amounted to Ps. 6,748, Ps. 5,813 and Ps. 4,504 respectively.

9.2 Other Current Financial Assets:

		2019		2018
Restricted cash	**Ps.**	**89**	Ps.	98
Derivative financial instruments (See Note 21)		**987**		707
	Ps.	**1,076**	Ps.	805

As of December 31, 2019 and 2018, restricted cash were in the following currencies:

		2019		2018
Brazilian reais	**Ps.**	**89**	Ps.	98
Total restricted cash	**Ps.**	**89**	Ps.	98

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

NOTE 10. INVESTMENTS IN OTHER ENTITIES

As of December 31, 2019 and 2018 the investment in other entities is comprised of the following:

		2019		2018
Investment in Associates and Joint Ventures	**Ps.**	**9,751**	Ps.	10,518
Total	**Ps.**	**9,751**	Ps.	10,518

Effective December 31, 2017, the Company determined that deteriorating conditions in Venezuela had led the Company no longer control and to continue consolidating its Venezuelan operation, the impacts of such deconsolidation are discussed on Note 3.3 above.

As disclosed in Note 3.3, on December 31, 2017 the Company changed the method of accounting for its investment in Venezuela from consolidation to the fair value method using a Level 3 concept and recognized a fair value loss on its investment of Ps. 216 and Ps.1,039 during 2019 and 2018 in OCI.

Details of the investment in associates and joint ventures accounted for under the equity method at the end of the reporting period as follows:

			Ownership Percentage		Carrying Amount	
Investee	Principal Activity	Place of Incorporation	2019	2018	2019	2018
Joint ventures:						
Compañía Panameña de Bebidas, S.A.P.I. de C.V.	Beverages	Mexico	**50.0%**	50.0%	**Ps. 486**	Ps. 1,550
Dispensadoras de Café, S.A.P.I. de C.V.	Services	Mexico	**50.0%**	50.0%	**172**	162
Fountain Agua Mineral, LTDA	Beverages	Brazil	**50.0%**	50.0%	**851**	826
Associates:						
Promotora Industrial Azucarera, S.A. de C.V. ("PIASA") (1)	Sugar production	Mexico	**36.4%**	36.4%	**3,274**	3,120
Jugos del Valle, S.A.P.I. de C.V. (1)	Beverages	Mexico	**28.8%**	26.3%	**1,929**	1,571
Leao Alimentos e Bebidas, LTDA (1)	Beverages	Brazil	**24.7%**	24.7%	**1,931**	2,084
Industria Envasadora de Querétaro, S.A. de C.V. ("IEQSA") (1)	Canned bottling	Mexico	**26.5%**	26.5%	**194**	179
Industria Mexicana de Reciclaje, S.A. de C.V. ("IMER") (1)	Recycling	Mexico	**35.0%**	35.0%	**121**	129
Others	Various	Various	**Various**	Various	**793**	897
					Ps. 9,751	Ps. 10,518

Accounting method:

(1) The Company has significant influence due to the fact that it has power to participate in the financial and operating policy decisions of the investee.

During 2019 the Company received dividends from Promotora Mexicana de Embotelladores, S.A. de C.V. for the amount of Ps. 1. During 2018 the Company received dividends from Industria Envasadora de Querétaro, S.A. de C.V. ("IEQSA") and Promotora Mexicana de Embotelladores, S.A. de C.V. in the amount of Ps. 8.

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

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

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

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

NOTE 11. LEASES

For the year ended as of December 31, 2019, the change in the Company's right-of-use assets, is as follows:

		TOTAL
As of January 1, 2019	**Ps.**	**1,797**
Additions		215
Disposals		(36)
Depreciation		(555)
Hyperinflationary economies effect		20
Indexation effect		15
Effects of changes in foreign exchange rates		(74)
Right-of-use assets, net as of December 31, 2019	**Ps.**	**1,382**

As of December 31, 2019, scheduled maturities of the Company's lease liabilities, are as follows:

MATURITY ANALYSIS –		2019
Less than one year	**Ps.**	**483**
One to three years		**238**
More than three years		**662**
Total lease liabilities as of December 31, 2019	**Ps.**	**1,383**
Current	**Ps.**	**483**
Non-Current	**Ps.**	**900**

The interest expense for leases reported in the income statements for the period ended on December 31, 2019 was Ps. 129.

The expenses for the low value assets and short-term leases reported in the income statements for the period ended on December 31, 2019 was Ps. 187.

Rental expense charged to consolidated net income was Ps. 1,063 and Ps. 1,420 for the years ended December 31, 2018 and 2017, respectively.

NOTE 12. PROPERTY, PLANT & EQUIPMENT

COST	LAND	BUILDINGS	EQUIPMENT	MACHINERY AND EQUIPMENT	REFRIGERATION BOTTLES	RETURNABLE IN PROGRESS	INVESTMENTS IN FIXED ASSETS IMPROVEMENTS	LEASEHOLD OTHER	TOTAL
Cost as of January 1, 2017	Ps. 5,822	Ps. 19,925	Ps. 41,213	Ps. 19,226	Ps. 15,943	Ps. 4,208	Ps. 645	Ps. 2,074	Ps. 109,056
Additions	110	775	275	758	3,202	5,762	11	176	11,069
Additions from business combinations	5,115	1,691	5,905	482	3,323	820	146	—	17,482
Transfer of completed projects	5	653	2,964	1,968	558	(6,174)	28	(2)	—
Disposals	(115)	(527)	(1,227)	(800)	(193)	—	(3)	(11)	(2,876)
Effects of changes in foreign exchange rates	(1,046)	(1,993)	(2,740)	(1,523)	(1,216)	(747)	(52)	(1,233)	(10,550)
Changes in value on the recognition of inflation effects	518	1,022	2,043	689	(2)	226	—	638	5,134
Capitalization of borrowing costs	—	—	13	—	—	—	—	—	13
Effects of Venezuela (Note 3.3)	(544)	(817)	(1,300)	(717)	(83)	(221)	—	(646)	(4,328)
Cost as of December 31, 2017	Ps. 9,865	Ps. 20,729	Ps. 47,146	Ps. 20,083	Ps. 21,532	Ps. 3,874	Ps. 775	Ps. 996	Ps. 125,000
Cost as of January 1, 2018	Ps. 9,865	Ps. 20,729	Ps. 47,146	Ps. 20,083	Ps. 21,532	Ps. 3,874	Ps. 775	Ps. 996	Ps. 125,000
Additions	31	8	1,356	961	2,888	4,578	—	95	9,917
Additions from business combinations	25	451	1,500	537	393	145	2	41	3,094
Transfer of completed projects	504	304	1,160	1,711	3	(3,722)	20	20	—
Disposals	(50)	(71)	(555)	(615)	(312)	—	(1)	(8)	(1,612)
Disposal of Philippines	(4,654)	(2,371)	(11,621)	(2,415)	(10,116)	(489)	(236)	—	(31,902)
Effects of changes in foreign exchange rates	(388)	(1,089)	(3,072)	(765)	(251)	(321)	(81)	(292)	(6,259)
Changes in value on the recognition of inflation effects	242	814	2,551	466	612	66	—	9	4,760
Cost as of December 31, 2018	Ps. 5,575	Ps. 18,775	Ps. 38,465	Ps. 19,963	Ps. 14,749	Ps. 4,131	Ps. 479	Ps. 861	Ps. 102,998
Cost as of January 1, 2019	**Ps. 5,575**	**Ps. 18,775**	**Ps. 38,465**	**Ps. 19,963**	**Ps. 14,749**	**Ps. 4,131**	**Ps. 479**	**Ps. 861**	**Ps. 102,998**
Additions [1]	**4**	**27**	**392**	**816**	**2,581**	**6,392**	**—**	**112**	**10,324**
Additions from business combinations	**142**	**227**	**50**	**(13)**	**—**	**—**	**7**	**(8)**	**405**
Transfer of completed projects in progress	**(253)**	**508**	**2,650**	**1,396**	**360**	**(5,004)**	**343**	**—**	**—**
Disposals	**(1)**	**(35)**	**(1,577)**	**(1,032)**	**(1,056)**	**—**	**(13)**	**(35)**	**(3,749)**
Effects of changes in foreign exchange rates	**(323)**	**(1,122)**	**(2,315)**	**(961)**	**(833)**	**(381)**	**(34)**	**(130)**	**(6,099)**
Changes in value on the recognition of inflation effects	**114**	**366**	**1,254**	**241**	**352**	**18**	**—**	**—**	**2,345**
Cost as of December 31, 2019	**Ps. 5,258**	**Ps. 18,746**	**Ps. 38,919**	**Ps. 20,410**	**Ps. 16,153**	**Ps. 5,156**	**Ps. 782**	**Ps. 800**	**Ps. 106,224**

ACCUMULATED DEPRECIATION	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	REFRIGERATION EQUIPMENT	RETURNABLE BOTTLES	INVESTMENTS IN FIXED ASSETS IN PROGRESS	LEASEHOLD IMPROVEMENTS	OTHER	TOTAL
Accumulated depreciation as of January 1, 2017	Ps. –	Ps (4,335)	Ps. (17,918)	Ps. (10,157)	Ps. (10,264)	Ps. –	Ps. (235)	Ps. (859)	Ps. (43,768)
Depreciation for the year	–	(626)	(3,007)	(2,490)	(3,365)	–	(43)	(685)	(10,216)
Disposals	–	12	1,555	729	103	–	2	5	2,406
Effects of changes in foreign exchange rates	–	548	447	1,157	94	–	(54)	940	3,132
Changes in value on the recognition of inflation effects	–	(439)	(1,042)	(553)	(46)	–	–	(233)	(2,313)
Effect of Venezuela	–	481	1,186	626	56	–	–	335	2,684
Impairment Venezuela (Note 3.3)	–	(257)	(841)	–	–	–	–	–	(1,098)
Accumulated depreciation as of December 31, 2017	Ps. –	Ps. (4,616)	Ps. (19,620)	Ps. (10,688)	Ps. (13,422)	Ps. –	Ps. (330)	Ps. (497)	Ps. (49,173)
Accumulated depreciation as of January 1, 2018	–	Ps. (4,616)	Ps. (19,620)	Ps. (10,688)	Ps. (13,422)	Ps. –	Ps. (330)	Ps. (497)	Ps. (49,173)
Depreciation for the year	–	(445)	(2,880)	(2,086)	(2,827)	–	(35)	(131)	(8,404)
Disposals	–	15	497	579	204	–	1	–	1,296
Philippines disposal	–	700	6,125	2,083	7,225	–	77	–	16,210
Effects of changes in foreign exchange rates	–	154	312	244	631	–	11	143	1,495
Changes in value on the recognition of inflation effects	–	(222)	(1,403)	(338)	(517)	–	–	–	(2,480)
Accumulated depreciation as of December 31, 2018	Ps. –	Ps. (4,414)	Ps. (16,969)	Ps. (10,206)	Ps. (8,706)	Ps. –	Ps. (276)	Ps. (485)	Ps. (41,056)
Accumulated depreciation as of January 1, 2019	**–**	**Ps. (4,414)**	**Ps. (16,969)**	**Ps. (10,206)**	**Ps. (8,706)**	**Ps. –**	**Ps. (276)**	**Ps. (485)**	**Ps. (41,056)**
Depreciation for the year	**–**	**(386)**	**(2,862)**	**(2,211)**	**(2,734)**	**–**	**(108)**	**(86)**	**(8,387)**
Disposals	**–**	**14**	**1,049**	**966**	**1,079**	**–**	**9**	**28**	**3,145**
Effects of changes in foreign exchange rates	**–**	**223**	**1,013**	**583**	**571**	**–**	**12**	**62**	**2,464**
Changes in value on the recognition of inflation effects	**–**	**(92)**	**(629)**	**(164)**	**(302)**	**–**	**(2)**	**(14)**	**(1,203)**
Accumulated depreciation as of December 31, 2019	**Ps. –**	**Ps. (4,655)**	**Ps (18,398)**	**Ps. (11,032)**	**Ps. (10,092)**	**Ps. –**	**Ps. (365)**	**Ps. (495)**	**Ps. (45,037)**

CARRYING AMOUNT	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	REFRIGERATION EQUIPMENT	RETURNABLE BOTTLES	INVESTMENTS IN FIXED ASSETS IN PROGRESS	LEASEHOLD IMPROVEMENTS	OTHER	TOTAL
As of December31, 2017	Ps. 9,865	Ps. 16,113	Ps. 27,526	Ps. 9,395	Ps. 8,110	Ps. 3,874	Ps. 445	Ps. 499	Ps. 75,827
As of December31, 2018	Ps. 5,575	Ps. 14,361	Ps. 21,496	Ps. 9,757	Ps. 6,043	Ps. 4,131	Ps. 203	Ps. 376	Ps. 61,942
As of December31, 2019	**Ps. 5,258**	**Ps. 14,091**	**Ps. 20,521**	**Ps. 9,378**	**Ps. 6,061**	**Ps. 5,156**	**Ps. 417**	**Ps. 305**	**Ps. 61,187**

During the year ended December 31, 2017 because the economic and operational conditions worsened in Venezuela, the Company has recognized impairment in the property plant and equipment for an amount of Ps 1,098, such charge has been recorded in other expenses line in the consolidated income statement.

(1) Total includes Ps. 610 and Ps. 415 outstanding payment with suppliers, as of December 31, 2019 and 2018, respectively.

NOTE 13. INTANGIBLE ASSETS

ACCUMULATED DEPRECIATION	RIGHTS TO PRODUCE AND DISTRIBUTE COCA-COLA TRADEMARK PRODUCTS	GOODWILL	ASSETS	OTHER INDEFINITE LIVED INTANGIBLE SYSTEMS	TECHNOLOGY COSTS AND MANAGEMENT SYSTEMS	DEVELOPMENT AMORTIZABLE	OTHER TOTAL
Balance as of January 1, 2017	Ps. 85,338	Ps. 33,582	Ps. 1,248	Ps. 4,579	Ps. 798	Ps. 475	Ps. 126,020
Purchases	1,288	–	7	179	920	446	2,840
Acquisition from business combinations	9,066	(6,168)	–	6	–	64	2,968
Transfer of completed development systems	–	–	–	412	(412)	–	–
Disposals	–	–	–	–	–	–	–
Effect of movements in exchange rates	(2,318)	(1,186)	101	(86)	(15)	(52)	(3,556)
Changes in value on the recognition of inflation effects	(727)	–	–	–	–	175	(552)
Effect of Venezuela (Note 3.3)	–	–	–	–	–	(139)	(139)
Capitalization of borrowing cost	–	–	–	–	–	–	–
Cost as of December 31, 2017	Ps. 92,647	Ps. 26,228	Ps. 1,356	Ps. 5,090	Ps. 1,291	Ps. 969	Ps. 127,581
Balance as of January 1, 2018	Ps. 92,647	Ps. 26,228	Ps. 1,356	Ps. 5,090	Ps. 1,291	Ps. 969	Ps. 127,581
Purchases	–	–	50	226	371	28	675
Acquisition from business combinations	4,602	–	–	26	57	291	4,976
Systems Development	–	–	–	–	–	41	41
Transfer of completed development systems	–	–	–	904	(904)	–	–
Disposals	–	–	–	(5)	–	(93)	(98)
Philippines disposal (Note 5)	(3,882)	–	–	–	–	(596)	(4,478)
Effect of movements in exchange rates	(5, 005)	(2,499)	(352)	(218)	(38)	(31)	(8,143)
Changes in value on the recognition of inflation effects	–	–	–	–	–	57	57
Cost as of December 31, 2018	Ps. 88,362	Ps. 23,729	Ps. 1,054	Ps. 6,023	Ps. 777	Ps. 666	Ps. 120,611
Balance as of January 1, 2019	**Ps. 88,362**	**Ps. 23,729**	**Ps. 1,054**	**Ps. 6,023**	**Ps. 777**	**Ps. 666**	**Ps. 120,611**
Purchases	**–**	**–**	**–**	**100**	**334**	**263**	**697**
Acquisition from business combinations	**7**	**–**	**153**	**(6)**	**–**	**(185)**	**(31)**
Transfer of completed development systems	**–**	**–**	**–**	**398**	**(399)**	**1**	**–**
Disposals	**–**	**–**	**–**	**(17)**	**–**	**–**	**(17)**
Effect of movements in exchange rates	**(3,466)**	**(799)**	**(42)**	**(68)**	**(22)**	**13**	**(4,384)**
Changes in value on the recognition of inflation effects	**–**	**–**	**–**	**–**	**–**	**(6)**	**(6)**
Cost as of December 31, 2019	**Ps. 84,903**	**Ps. 22,930**	**Ps. 1,165**	**Ps. 6,430**	**Ps. 690**	**Ps. 752**	**Ps. 116,870**

ACCUMULATED AMORTIZATION	RIGHTS TO PRODUCE AND DISTRIBUTE COCA-COLA TRADEMARK PRODUCTS	OTHER INDEFINITE LIVED INTANGIBLE GOODWILL	TECHNOLOGY COSTS AND MANAGEMENT ASSETS	DEVELOPMENT SYSTEMS	OTHER SYSTEMS	AMORTIZABLE	TOTAL
Balance as of January 1, 2017	–	–	–	(1,764)	–	(292)	(2,056)
Amortization expense	–	–	–	(605)	–	(42)	(647)
Effect of movements in exchange rate	–	–	–	46	–	184	230
Effect of Venezuela (Note 3.3)	–	–	–	–	–	(120)	(120)
Impairment of Venezuela	(745)	–	–	–	–	–	(745)
Balances as of December 31, 2017	Ps. (745)	Ps. –	Ps. –	Ps. (2,323)	Ps. –	Ps. (270)	Ps. (3,338)
Amortization expense	–	–	–	(797)	–	(201)	(998)
Disposals	–	–	–	5	–	93	98
Philippines disposal (Note 5)	–	–	–	–	–	375	375
Effect of movements in exchange rate	–	–	–	141	–	(33)	108
Changes in value on the recognition of inflation effects	–	–	–	(51)	–	(1)	(52)
Balance as of December 31, 2018	Ps. (745)	Ps. –	Ps. –	Ps. (3,025)	Ps. –	Ps. (37)	Ps. (3,807)
Amortization expense	**–**	**–**	**–**	**(819)**	**–**	**(243)**	**(1,062)**
Disposals	**–**	**–**	**–**	**17**	**–**	**–**	**17**
Effect of movements in exchange rate	**–**	**–**	**–**	**52**	**–**	**9**	**61**
Changes in value on the recognition of inflation effects	**–**	**–**	**–**	**(30)**	**–**	**1**	**(29)**
Balance as of December 31, 2019	**Ps. (745)**	**Ps. –**	**Ps. –**	**Ps. (3,805)**	**Ps. –**	**Ps. (270)**	**Ps. (4,820)**
Balance as of December 31, 2017	Ps. 91,902	Ps. 26,228	Ps. 1,356	Ps. 2,767	Ps. 1,291	Ps. 699	Ps. 124,243
Balance as of December 31, 2018	Ps. 87,617	Ps. 23,729	Ps. 1,054	Ps. 2,998	Ps. 777	Ps. 699	Ps. 116,804
Balance as of December 31, 2019	**Ps. 84,158**	**Ps. 22,930**	**Ps. 1,165**	**Ps. 2,625**	**Ps. 690**	**Ps. 482**	**Ps. 112,050**

The Company's intangible assets such as technology costs and management systems are subject to amortization with a range in useful lives from 3 to 10 years.

For the year ended December 31, 2019, the amortization of intangible assets is recognized in cost of goods sold, selling expenses and administrative expenses and amounted to Ps. 26, Ps. 245 and Ps. 791, respectively.

For the year ended December 31, 2018, the amortization of intangible assets is recognized in cost of goods sold, selling expenses and administrative expenses and amounted to Ps. 32, Ps. 236 and Ps. 730, respectively.

On March 28, 2017 the Company acquired distribution rights and other intangibles of AdeS soy-based beverages in its territories in Mexico and Colombia for an aggregate amount of Ps. 1,664. This acquisition was made to reinforce the Company's leadership position.

For the year ended December 31, 2017, the amortization of intangible assets is recognized in cost of goods sold, selling expenses and administrative expenses and amounted to Ps. 22, Ps. 83 and Ps. 544, respectively.

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

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

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

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

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, the Company prepares its estimates based on the current situation of each of the CGUs.

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

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

The estimated discount rates to perform, impairment test for each CGU consider market participants' assumptions. Market participants were selected considering the size, operations and characteristics of the business that are similar to those of the Company.

The discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the opportunity cost to a market participant, considering the specific circumstances of the Company 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 the Company is obliged to service, which is equivalent to the cost of debt based on the conditions that a creditor would assess in the market. Segment-specific risk is incorporated by applying beta factors which are evaluated annually based on publicly available market data.

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

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

- Cash flows were projected based on actual operating results and the five-year business plan. Cash flows for a further five-year were forecasted maintaining the same stable growth and margins per country of the last year base. The Company 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 adjustment.

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

CGU	PRE-TAX WACC	POST – TAX WACC	EXPECTED ANNUAL LONG-TERM INFLATION 2020-2029	EXPECTED VOLUME GROWTH RATES 2020-2029
Mexico	**7.3%**	**5.2%**	**3.5%**	**0.7%**
Brazil	**9.3%**	**5.6%**	**3.6%**	**2.0%**
Colombia	**8.9%**	**6.2%**	**3.1%**	**4.0%**
Argentina	**21.6%**	**14.8%**	**39.2%**	**3.7%**
Guatemala	**9.1%**	**7.1%**	**4.0%**	**8.5%**
Costa Rica	**13.8%**	**9.7%**	**2.2%**	**2.1%**
Nicaragua	**21.1%**	**12.4%**	**4.4%**	**3.0%**
Panamá	**8.5%**	**6.6%**	**2.0%**	**5.4%**
Uruguay	**9.4%**	**6.8%**	**7.4%**	**2.0%**

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

CGU	PRE-TAX WACC	POST – TAX WACC	EXPECTED ANNUAL LONG-TERM INFLATION 2019-2028	EXPECTED VOLUME GROWTH RATES 2019-2028
Mexico	7.4%	5.3%	4.0%	1.4%
Guatemala	9.4%	7.5%	3.2%	7.3%
Nicaragua	21.2%	11.0%	6.2%	3.8%
Costa Rica	13.9%	9.2%	4.0%	1.6%
Panama	9.2%	7.0%	2.4%	3.0%
Colombia	7.8%	5.2%	3.1%	4.0%
Brazil	10.7%	6.6%	3.8%	1.7%
Argentina	19.6%	11.3%	21.9%	2.7%

Sensitivity to Changes in Assumptions

As of December 31, 2019, the Company performed an additional impairment sensitivity calculation, taking into account an adverse change in post-tax WACC, according to the country risk premium, using for each country the relative standard deviation between equity and sovereign bonds and an additional sensitivity to the volume of a 100 basis points and concluded that no impairment would be recorded except for Nicaragua. However, upon further review, the Company also concluded that no impairment would be recorded for Nicaragua.

CGU	CHANGE IN WACC	CHANGE IN VOLUME GROWTH CAGR (1)	EFFECT ON VALUATION
Mexico	**0.4%**	**-1.0%**	Passes by 4.9x
Brasil	**0.5%**	**-1.0%**	Passes by 1.6x
Colombia	**0.3%**	**-1.0%**	Passes by 4.7x
Argentina	**1.9%**	**-1.0%**	Passes by 13.9x
Guatemala	**0.4%**	**-1.0%**	Passes by 38.5x
Costa Rica	**0.8%**	**-1.0%**	Passes by 3.4x
Nicaragua	**1.4%**	**-1.0%**	Passes by 1.1x
Panamá	**0.2%**	**-1.0%**	Passes by 9.7x
Uruguay	**0.3%**	**-1.0%**	Passes by 3x

(1) Compound Annual Growth Rate (CAGR)

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

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

NOTE 14. OTHER NON-CURRENT ASSETS AND OTHER NON-CURRENT FINANCIAL ASSETS

14.1 Other Non-Current Assets:

		2019		2018
Non-current prepaid advertising expenses	**Ps.**	**341**	Ps.	388
Guarantee deposits (1)		**1,553**		1,647
Prepaid bonuses		**225**		247
Advances to acquire property, plant and equipment		**203**		233
Shared based payment		**234**		160
Indemnifiable contingencies from business combinations (2)		**2,948**		3,336
Recoverable tax		**515**		395
Other		**18**		66
	Ps.	**6,037**	Ps.	6,472

(1) As it is customary in Brazil, the Company is required to guarantee tax, legal and labor contingencies by guarantee deposits. See Note 26.

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

14.2 Other Non-Current Financial Assets:

		2019		2018
Other non-current financial assets	**Ps.**	**195**	Ps.	226
Derivative financial instruments (See Note 21)		**9**		1,897
	Ps.	**204**	Ps.	2,123

Non-current accounts receivable to be held to maturity and the investment in other entities as well as financial derivative instruments are classified as FVOCI financial assets.

NOTE 15. BALANCES AND TRANSACTIONS WITH RELATED PARTIES AND AFFILIATED COMPANIES

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

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

		2019		2018
Balances:				
Assets (current included in accounts receivable)				
Due from FEMSA and its subsidiaries (see Note 7) (1) (3)	**Ps.**	**2,039**	Ps.	783
Due from The Coca-Cola Company (see Note 7) (1)		**802**		1,173
Due from Heineken Group (1)		**353**		243
Other receivables (1)		**261**		332
	Ps.	**3,455**	Ps.	2,531

		2019		2018
Liabilities (current included in suppliers and other liabilities and loans)				
Due to FEMSA and its subsidiaries (2) (3)	**Ps.**	**854**	Ps.	1,371
Due to The Coca-Cola Company (2)		**4,417**		3,893
Due to Heineken Group (2)		**1,125**		1,446
Other payables (2)		**1,455**		820
	Ps.	**7,851**	Ps.	7,530

(1) Presented within accounts receivable.

(2) Recorded within accounts payable and suppliers

(3) Parent

Balances due from related parties are considered to be recoverable. Accordingly, for the years ended December 31, 2019,2018 and 2017, there was no expense resulting from the un-collectability of balances due from related parties.

Details of transactions between the Company and other related parties are disclosed as follows:

TRANSACTIONS		2019		2018		2017
Income:						
Sales to affiliated parties	**Ps.**	**5,694**	Ps.	5,200	Ps.	4,761
Heineken		**5**		4		—
Interest income received from BBVA Bancomer, S.A. de C.V.		**30**		180		138
Expenses:						
Purchases and other expenses from FEMSA		**7,756**		8,878		7,773
Purchases of concentrate from The Coca-Cola Company		**34,063**		32,379		30,758
Purchases of raw material, beer and operating expenses from Heineken (3)		**12,755**		14,959		13,608
Advertisement expense paid to The Coca-Cola Company		**1,756**		2,193		1,392
Purchases from Ades		**497**		592		—
Purchases from Jugos del Valle		**2,863**		2,872		2,604
Purchase of sugar from Promotora Industrial Azucarera, S.A. de C.V.		**2,728**		2,604		1,885
Purchase of sugar from Beta San Miguel		**655**		651		1,827
Purchase of sugar, cans and aluminum lids from Promotora Mexicana de Embotelladores, S.A. de C.V.		**—**		—		839
Purchase of canned products from Industria Envasadora de Queretaro, S.A. de C.V.		**682**		596		804
Purchase of inventories from Leao Alimentos e Bebidas, LTDA		**1,867**		2,654		4,010
Purchase of resin from Industria Mexicana de Reciclaje, S.A. de C.V.		**281**		298		267
Donations to Instituto Tecnologico y de Estudios Superiores de Monterrey, A.C. (1) (2)		**127**		127		47
Donations to Fundación Femsa, A.C.		**146**		179		2
Interest expense paid to The Coca-Cola Company		**—**		—		11
Interest and fees paid to Bancomer		**98**		168		—
Other expenses with related parties		**15**		79		202

(1) One or more members of the Board of Directors or senior management of the Company are also members of the Board of Directors or senior management of the counterparties to these transactions.

(2) In 2019 and 2018, there were donations to ITESM made through Fundacion FEMSA as intermediary for Ps. 127 and Ps. 127, respectively.

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

The aggregate compensation paid to executive officers and senior management of the Company, recognized as an expense during the reporting period were as follows:

		2019		2018		2017
Current compensations and employee benefits	**Ps.**	**978**	Ps.	705	Ps.	621
Termination benefits		**186**		57		27
Shared based payments		**188**		157		316

NOTE 16. BALANCES AND TRANSACTIONS IN FOREIGN CURRENCIES

Assets, liabilities and transactions denominated in foreign currencies are those realized in a currency different from the functional currency of the Company. As of December 31, 2019 and 2018, assets and liabilities denominated in foreign currencies, expressed in Mexican pesos (contractual amounts) are as follows:

	ASSETS		LIABILITIES	
BALANCES	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
As of December 31, 2019				
U.S. dollars	**11,122**	**93**	**2,762**	**37,691**
Euros	**—**	**—**	**49**	**—**
As of December 31, 2018				
U.S. dollars	14,572	—	2,985	43,411
Euros	—	—	93	—

For the years ended December 31, 2019, 2018 and 2017 transactions denominated in foreign currencies, expressed in Mexican pesos (contractual amounts) are as follows:

TRANSACTIONS	REVENUES	PURCHASES OF RAW MATERIALS	INTEREST EXPENSE	OTHER
Year ended December 31, 2019 U.S. dollars	1,506	14,307	1,910	2,723
Year ended December 31, 2019 Euros	—	454	—	—
Year ended December 31, 2018 U.S. dollars	1,481	18,129	2,223	2,161
Year ended December 31, 2018 Euros	—	—	—	—
Year ended December 31, 2017 U.S. dollars	653	13,381	2,454	1,544
Year ended December 31, 2017 Euros	—	18	—	—

NOTE 17. POST-EMPLOYMENT AND OTHER NON-CURRENT EMPLOYEE BENEFITS

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

17.1 Assumptions

The Company annually evaluates the reasonableness of the assumptions used in its labor liability for post-employment and other non-current employee benefits computations. In Mexico, actuarial calculations for pension and retirement plans and seniority premiums, as well as the associated cost for the period, were determined using the following long-term assumptions:

MÉXICO		2019		2018		2017
Financial:						
Discount rate used to calculate the defined benefit obligation	**$**	**7.5%**	$	9.4%	$	7.60%
Salary increase		**4.5%**		4.6%		4.60%
Future pension increases		**3.5%**		3.6%		3.50%
Biometric:						
Mortality		**EMSSA 2009 (1)**		EMSSA 2009 (1)		EMSSA 2009 (1)
Disability		**IMSS-97 (2)**		IMSS-97 (2)		IMSS-97 (2)
Normal retirement age		**60 years**		60 years		60 years
Rest of employee turnover		**BMAR2007 (3)**		BMAR2007 (3)		BMAR2007 (3)

(1) EMSSA. Mexican Experience of Social Security (for its initials in Spanish)

(2) IMSS. Mexican Experience of Instituto Mexicano del Seguro Social (for its initials in Spanish)

(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 the Mexican Federal Government Treasury Bond (known as CETES in Mexico) because there is no deep market in high quality corporate obligations in Mexico.

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

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

	PENSION AND RETIREMENT PLANS	SENIORITY PREMIUMS
2020	315	38
2021	174	30
2022	143	28
2023	250	27
2024	232	27
2025 to 2029	1,996	145

17.2 Balances of the liabilities for post-employment and other non-current employee benefits

		2019		2018
Pension and Retirement Plans:				
Vested benefit obligation	**Ps.**	**627**	Ps.	480
Non-vested benefit obligation		**1,421**		1,210
Accumulated benefit obligation		**2,048**		1,690
Excess of projected defined benefit obligation over accumulated benefit obligation		**1,864**		1,695
Defined benefit obligation		**3,912**		3,385
Pension plan funds at fair value		**(1,122)**		(1,031)
Net defined benefit liability	**Ps.**	**2,790**	Ps.	2,354
Seniority Premiums:				
Vested benefit obligation	**Ps.**	**214**	Ps.	40
Non-vested benefit obligation		**133**		204
Accumulated benefit obligation		**347**		244
Excess of projected defined benefit obligation over accumulated benefit obligation		**283**		165
Defined benefit obligation		**630**		409
Seniority premium plan funds at fair value		**(127)**		(111)
Net defined benefit liability	**Ps.**	**503**	Ps.	298
Total post-employment and other non-current employee benefits	**Ps.**	**3,293**	Ps.	2,652

17.3 Trust assets

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

TYPE OF INSTRUMENT	2019	2018
Fixed return:		
Traded securities	**18%**	25%
Life annuities	**20%**	20%
Bank instruments	**9%**	4%
Federal government instruments	**35%**	32%
Variable return:		
Publicly traded shares	**18%**	19%
	100%	100%

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

In Mexico, the Income Tax Law requires that, in the case of private plans, certain notifications must be submitted to the authorities and a certain level of instruments must be invested in the Federal Government, 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 the monitoring and supervision of the benefit trust. 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 plan in all of the countries in which the Company has these benefits.

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

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

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

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

		2019		2018
Mexico				
Portfolio:				
Debt:				
Grupo Televisa, S.A.B. de C.V.	**Ps.**	**–**	Ps.	17
Grupo Industrial Bimbo, S.A.B. de C. V.		**26**		23
Grupo Financiero Banorte, S.A.B. de C.V.		**8**		8
Banco Compartamos Banco.		**–**		4
Capital:				
Walmart de México S.A. de C.V.		**–**		6
Fomento Económico Mexicano, S.A.B. de C.V.		**2**		5
El Puerto de Liverpool, S.A.B. de C.V.		**2**		3
Grupo aeropuerto del sureste		**–**		2
Grupo Televisa, S.A.B. de C.V.		**–**		1
Alfa, S.A.B. de C.V.		**3**		–

During the years ended December 31, 2019, 2018 and 2017, 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.

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

	Income Statement								Accumulated OCI	
	Current Service Cost		Past Service Cost		(Gain) or Loss on Settlement or Curtailment		Net Interest on the Net Defined Benefit Liability		Remeasurements of the Net Defined Benefit Liability Net of Taxes	
2019										
Pension and retirement plans	**Ps.**	**170**	**Ps.**	**(44)**	**Ps.**	**2**	**Ps.**	**176**	**Ps.**	**790**
Seniority premiums		**35**		**76**		**—**		**24**		**65**
Total	**Ps.**	**205**	**Ps.**	**32**	**Ps.**	**2**	**Ps.**	**200**	**Ps.**	**855**
2018										
Pension and retirement plans	Ps.	195	Ps.	—	Ps.	(5)	Ps.	265	Ps.	370
Seniority premiums		42		—		—		34		(26)
Total	Ps.	237	Ps.	—	Ps.	(5)	Ps.	299	Ps.	344

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

		2019		2018		2017
Amount accumulated in other comprehensive income as of the beginning of the periods	**Ps.**	**344**	Ps.	567	Ps.	585
Recognized during the year (obligation liability and plan assets)		**98**		100		(169)
Actuarial gains and losses arising from changes in financial assumptions		**456**		(357)		165
Acquisitions		**—**		(83)		—
Foreign exchange rate valuation (gain)		**(43)**		(66)		(14)
Philippines disposal		**—**		183		—
Amount accumulated in other comprehensive income as of the end of the period, net of tax	**Ps.**	**855**	Ps.	344	Ps.	567

Remeasurements of the net defined benefit liability include the following:

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

17.5 Changes in the balance of the defined benefit obligation for post-employment and other non-current employee benefits

		2019		2018		2017
Pension and Retirement Plans:						
Initial balance	**Ps.**	**3,388**	Ps.	4,369	Ps.	2,915
Current service cost		**170**		195		241
Effect on curtailment		**2**		(5)		–
Interest expense		**275**		265		258
Actuarial gains or losses		**585**		(391)		190
Foreign exchange loss		**(69)**		(86)		(69)
Benefits paid		**(395)**		(265)		(385)
Acquisitions		**–**		417		1,209
Philippines disposal		**–**		(1,111)		–
Past service credit		**(44)**		–		10
	Ps.	**3,912**	Ps.	3,388	Ps.	4,369
Seniority Premiums:						
Initial balance	**Ps.**	**411**	Ps.	461	Ps.	416
Current service cost		**35**		42		44
Effect on curtailment		**–**		–		–
Interest expense		**37**		34		29
Actuarial gains or losses		**155**		(84)		12
Benefits paid		**(84)**		(42)		(40)
Past service cost		**76**		–		–
	Ps.	**630**	Ps.	411	Ps.	461

17.6 Changes in the balance of trust assets

		2019		2018		2017
Pension and retirement plans:						
Balance at beginning of year	**Ps.**	**1,031**	Ps.	1,692	Ps.	910
Actual return on trust assets		**81**		30		113
Foreign exchange gain		**2**		(2)		86
Life annuities		**8**		16		21
Benefits paid		**–**		(1)		(136)
Acquisitions		**–**		–		698
Philippines diposal		**–**		(704)		–
Balance at end of year	**Ps.**	**1,122**	Ps.	1,031	Ps.	1,692
Seniority premiums:						
Balance at beginning of year	**Ps.**	**111**	Ps.	109	Ps.	102
Actual return on trust assets		**16**		2		7
Balance at end of year	**Ps.**	**127**	Ps.	111	Ps.	109

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

17.7 Variation in assumptions

The Company decided that the relevant actuarial assumptions that are subject to sensitivity and valuated through the projected unit credit method, are the discount rate and the salary 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.

The following table presents the impact in absolute terms of a variation of 1.0% in the assumptions on the net defined benefit liability associated with the Company's defined benefit plans. The sensitivity of this 1.0% on the significant actuarial assumptions is based on projected long-term discount rates for Mexico and a yield curve projections of long-term sovereign bonds:

			INCOME STATEMENT		ACCUMULATED OCI
+1.0%: DISCOUNT RATE USED TO CALCULATE THE DEFINED BENEFIT OBLIGATION AND THE NET INTEREST ON THE NET DEFINED LIABILITY (ASSET)	CURRENT SERVICE COST	PAST SERVICE COST	(GAIN) OR LOSS ON SETTLEMENT OR CURTAILMENT	NET INTEREST ON THE NET DEFINED BENEFIT LIABILITY	REMEASUREMENTS OF THE NET DEFINED BENEFIT LIABILITY
Pension and retirement plans	Ps. 158	Ps. (41)	Ps. 1	Ps. 148	Ps. 781
Seniority premiums	34	72	—	23	100
Total	Ps. 192	Ps. 31	Ps. 1	Ps. 171	Ps. 881

EXPECTED SALARY INCREASE	CURRENT SERVICE COST	(GAIN) OR LOSS PAST SERVICE COST	NET INTEREST ON THE ON SETTLEMENT OR CURTAILMENT	REMEASUREMENTS OF THE NET DEFINED NET DEFINED BENEFIT LIABILITY	BENEFIT LIABILITY
Pension and retirement plans	Ps. 184	Ps. (47)	Ps. 2	Ps. 201	Ps. 844
Seniority premiums	39	83	—	29	120
Total	Ps. 223	Ps. 36	Ps. 2	Ps. 230	Ps. 964

17.8 Employee benefits expense

For the years ended December 31, 2019, 2018 and 2017, employee benefits expenses recognized in the consolidated income statements are as follows:

		2019		2018		2017
Included in cost of goods sold:						
Wages and salaries	**Ps.**	**4,052**	Ps.	4,295	Ps.	4,323
Social security costs		**1,277**		1,320		1,449
Employee profit sharing		**79**		74		75
Pension and seniority premium costs (Note 17.4)		**34**		26		22
Share-based payment expense (Note 18.2)		**1**		3		6
Included in selling and distribution expenses:						
Wages and salaries		**16,068**		16,590		12,001
Social security costs		**4,717**		4,651		4,417
Employee profit sharing		**539**		496		484
Pension and seniority premium costs (Note 17.4)		**185**		158		125
Share-based payment expense (Note 18.2)		**2**		11		7
Included in administrative expenses:						
Wages and salaries		**2,742**		2,771		2,453
Social security costs		**625**		557		585
Employee profit sharing		**35**		31		31
Pension and seniority premium costs (Note 17.4)		**20**		46		42
Post-employment benefits other (Note 17.4)		**—**		2		10
Share-based payment expense (Note 18.2)		**185**		143		161
Total employee benefits expense	**Ps.**	**30,561**	Ps.	31,174	Ps.	26,191

NOTE 18. BONUS PROGRAMS

18.1 Quantitative and qualitative objectives

The bonus program for executives is based on achieving certain goals established annually by management and directors, 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 by our Company and the EVA generated by our parent Company FEMSA. The qualitative objectives and special projects represent the remaining 50% of the annual bonus and are based on the critical success factors established at the beginning of the year for each executive.

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

The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of achievement of the goals established every year. The bonuses are recognized in the income statement in the period ended and are paid in cash the following year. During the years ended December 31, 2019, 2018 and 2017 the bonus expense recorded amounted to Ps. 940, Ps. 659 and Ps. 701, respectively.

18.2 Share-based payment bonus plan

The Company has a stock incentive plan for the benefit of its senior executives. 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 purchase FEMSA and Coca-Cola FEMSA shares or options, based on the executive's responsibility in the organization, their business' EVA result achieved, and their individual performance. The acquired shares or options are deposited in a trust, and the executives may access them one year after they are vested at 33% per year. The 50% of Coca-Cola FEMSA's annual executive bonus is to be used to purchase FEMSA shares or options and the remaining 50% to purchase Coca-Cola FEMSA shares or options. For the years ended December 31, 2019, 2018 and 2017, no stock options have been granted to employees. Beginning with January 1, 2016 the shares ratably vest over a three year period.

The special bonus is granted to the eligible employee on an annual basis and after withholding applicable taxes. The Company contributes the individual employee's special bonus (after taxes) in cash to the Administrative Trust (which is controlled and consolidated by FEMSA), which then uses the funds to purchase FEMSA and Coca-Cola FEMSA shares (as instructed by the Corporate Practices Committee), which are then allocated to such employee.

Coca-Cola FEMSA accounts for its share-based payment bonus plan as an equity-settled share based payment transaction, since it is its parent company, FEMSA, who ultimately grants and settles with shares these obligations due to executives.

At December 31, 2019 the shares granted under the Company's executive incentive plans are as follows:

	NUMBER OF SHARES		
INCENTIVE PLAN	FEMSA	KOF	VESTING PERIOD
2015	457,925	415,375	2016-2018
2016	567,671	719,132	2017-2019
2017	326,561	369,791	2018-2020
2018	211,290	256,281	2019-2021
2019	312,006	457,338	2020-2022
Total	1,875,453	2,217,917	

For the years ended December 31, 2019, 2018 and 2017, the total expense recognized for the period arising from share-based payment transactions, using the grant date model, was of Ps. 188, Ps. 157 and Ps. 174, respectively.

As of December 31, 2019 and 2018, the asset recorded by Coca-Cola FEMSA in its consolidated statements of financial position amounted to Ps. 234 and Ps. 160, respectively, see Note 14.

NOTE 19. BANK LOANS AND NOTES PAYABLES

Expressed in millions of Mexican pesos. [1]

	2020	2021	2022	2023	2024	2025 AND FOLLOWING YEARS	CARRYING VALUE AS OF DECEMBER 31, 2019	FAIR VALUE AS OF DECEMBER 31, 2019	CARRYING VALUE AS OF DECEMBER 31, 2018
Short- term debt:									
Fixed rate debt:									
Argentine pesos									
Bank loans	126	–	–	–	–	–	**126**	**126**	157
Interest rate	63.50%	–	–	–	–	–	**63.50%**	**–**	36.75%
Uruguayan pesos									
Bank loans	63	–	–	–	–	–	**63**	**63**	771
Interest rate	11.59%	–	–	–	–	–	**11.59%**	**–**	9.96%
Colombian pesos									
Bank loans	230	–	–	–	–	–	**230**	**230**	–
Interest rate	4.37%	–	–	–	–	–	**4.37%**	**–**	–
Subtotal	419	–	–	–	–	–	**419**	**419**	928
Variable rate debt:									
Colombian pesos									
Bank loans	431	–	–	–	–	–	**431**	**431**	454
Interest rate	4.66%	–	–	–	–	–	**4.66%**	**–**	5.58%
Argentine pesos									
Bank loans	32	–	–	–	–	–	**32**	**32**	–
Interest rate	54.25%	–	–	–	–	–	**54.25%**	**–**	–
Subtotal	463	–	–	–	–	–	**463**	**463**	454
Short- term debt	882	**–**	**–**	**–**	**–**	**–**	**882**	**882**	**1,382**
Long term debt:									
Fixed rate debt:									
U.S. Dollar									
Yankee bond	9,421	–	–	16,840	–	11,314	37,575	41,231	39,204
Interest rate	4.63%	–	–	3.88%	–	5.25%	4.48%	–	4.48%
Colombian pesos									
Bank loans	–	–	–	–	–	–	–	–	–
Interest rate	–	–	–	–	–	–	–	–	–
Brazilian reais									
Notes payable [2]	–	–	–	–	–	–	–	–	4,653
Interest rate	–	–	–	–	–	–	–	–	0.38%
Bank loans	118	72	61	35	23	–	309	309	522
Interest rate	6.05%	6.05%	6.05%	6.05%	6.05%	–	6.05%	–	5.95%
Mexican pesos									
Senior notes	–	2,499	–	7,496	–	8,489	18,484	17,879	18,481
Interest rate	–	8.27%	–	5.46%	–	7.87%	6.95%	–	6.95%

Expressed in millions of Mexican pesos. [1]

	2020	2021	2022	2023	2024	2025 AND FOLLOWING YEARS	CARRYING VALUE AS OF DECEMBER 31, 2019	FAIR VALUE AS OF DECEMBER 31, 2019	CARRYING VALUE AS OF DECEMBER 31, 2018
Uruguayan pesos									
Bank loans	478	788	–	–	–	–	1,266	1,327	573
Interest rate	10.15%	9.93%	–	–	–	–	10.01%	–	10.15%
U.S. Dollar									
Financial leases.	–	–	–	–	–	–	–	–	10
Interest rate	–	–	–	–	–	–	–	–	3.28%
Subtotal	10,017	3,359	61	24,371	23	19,803	57,634	60,746	63,443
Variable rate debt:									
Mexican pesos									
Senior notes	–	–	1,459	–	–	–	1,459	1,500	1,497
Interest rate	–	–	7.99%	–	–	–	7.99%	–	8.61%
Bank loans	–	–	–	–	–	9,358	9,358	9,401	10,100
Interest rate	–	–	–	–	–	8.20%	8.20%	–	8.56%
U. S. Dollar									
Bank loans	–	–	–	–	–	–	–	–	4,025
Interest rate	–	–	–	–	–	–	–	–	3.34%
Colombian pesos									
Bank loans	402	–	–	–	–	–	402	402	848
Interest rate	5.61%	–	–	–	–	–	5.61%	–	5.67%
Brazilian reais									
Bank loans	184	52	6	–	–	–	242	242	505
Interest rate	7.82%	7.82%	7.82%	–	–	–	7.82%	–	9.53%
Notes payable	–	–	–	–	–	–	–	–	5
Interest rate	–	–	–	–	–	–	–	–	0.40%
Subtotal	586	52	1,465	–	–	9,358	11,461	11,545	16,980
Long term debt	**10,603**	**3,411**	**1,526**	**24,371**	**23**	**29,161**	**69,095**	**72,291**	**80,423**
Current portion of long term debt	10,603	–	–	–	–	–	10,603	–	10,222
Long- term debt	**–**	**3,411**	**1,526**	**24,371**	**23**	**29,161**	**58,492**	**72,291**	**70,201**

(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.

For the years ended December 31, 2019, 2018 and 2017, the interest expense related to the bank loans and notes payable is comprised as follows and included in the consolidated income statement under the interest expense caption:

		2019		2018		2017
Interest on debts and borrowings	**Ps.**	**4,459**	Ps.	4,786	Ps.	4,337
Finance charges for employee benefits		**200**		202		182
Derivative instruments		**1,946**		2,370		4,161
Finance charges of leases		**129**		—		—
Finance operating charges		**170**		210		97
	Ps.	**6,904**	Ps.	7,568	Ps.	8,777

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% iii) Ps. 1,500 (nominal amount) with a maturity date in 2022 and floating interest rate of TIIE + 0.25% iv) Ps. 8,500 (nominal amount) with a maturity date in 2027 and fixed interest rate of 7.87% and b) registered with the SEC : i) Senior notes of US. $ 500 with interest at a fixed rate of 4.63% and maturity date on February 15, 2020, ii) Senior notes of US. $900 with interest at a fixed rate of 3.88% and maturity date on November 26, 2023 and iii) Senior notes of US. $ 600 with interest at a fixed rate of 5.25% and maturity date on November 26, 2043 all of which are guaranteed by our 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"). In Note 29 we present supplemental guarantors consolidating financial information.

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

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

The Company has financing from different financial institutions under agreements that stipulate different restrictions and covenants, which mainly consist of maximum levels of leverage. As of the date of these consolidated financial statements, the Company was in compliance with all restrictions and covenants contained in its financing agreements.

	Carrying value at December 31, 2018	Cash flows: Repayments	Cash flows: Proceeds	Non-cash flows: New leases	Non-cash flows: Others	Non-cash flows: Foreign exchange movement	Translation effect	Carrying value at December 31, 2019
Short-term bank loans	Ps. 1,382	Ps. (852)	Ps. 503	Ps. —	Ps. —	Ps. —	Ps. (151)	Ps. 882
Short-term notes payable	—	—	—	—	—	—	—	—
Total short-term from financing activities	**Ps. 1,382**	**Ps. (852)**	**Ps. 503**	**Ps. —**	**Ps. —**	**Ps. —**	**Ps. (151)**	**Ps. 882**
Long-term bank loans	16,572	(14,926)	10,233	—	—	—	(303)	11,576
Long-term notes payable	63,841	(4,674)	—	—	—	(1,589)	(59)	57,519
Long-term lease liabilities	10	(8)	—	—	—	(1)	(1)	—
Total long-term from financing activities	**Ps. 80,423**	**Ps. (19,608)**	**Ps. 10,233**	**Ps. —**	**Ps. —**	**Ps. (1,590)**	**Ps. (363)**	**Ps. 69,095**
Lease liabilities (1)	**Ps. 1,798**	**Ps. (492)**	**Ps. —**	**Ps. 215**	**Ps. (21)**	**Ps. (37)**	**Ps. (80)**	**Ps. 1,383**
Total from financing activities	**Ps. 83,603**	**Ps. (20,952)**	**Ps. 10,736**	**Ps. 215**	**Ps. (21)**	**Ps. (1,627)**	**Ps. (594)**	**Ps. 71,360**

(1) Beginning balance as of adoption date; Januray 1st 2019

	Carrying value at December 31, 2017	Cash flows: Repayments	Cash flows: Proceeds	Non-cash flows: Liability offset	Non-cash flows: Foreign exchange movement	Translation effect	Carrying value at December 31, 2018
Short-term bank loans	Ps. 2,057	Ps. (5,188)	Ps. 4,138	Ps. —	Ps. —	Ps. 375	Ps. 1,382
Short-term notes payable	—	—	—	—	—	—	—
Total short-term from financing activities	Ps. 2,057	Ps. (5,188)	Ps. 4,138	Ps. —	Ps. —	Ps. 375	Ps. 1,382
Long-term bank loans	6,563	(1,702)	11,278	—	—	433	16,572
Long-term notes payable	74,740	(9,067)	—	(2,036)	1,157	(953)	63,841
Long-term lease liabilities	—	—	10	—	—	—	10
Total long-term from financing activities	Ps. 81,303	Ps. (10,769)	Ps. 11,288	Ps. (2,036)	Ps. 1,157	Ps. (520)	Ps. 80,423
Total from financing activities	Ps. 83,360	Ps. (15,957)	Ps. 15,426	Ps. (2,036)	Ps. 1,157	Ps. (145)	Ps. 81,805

(1) Following a favorable decision from Brazilian tax authorities received during 2019, Coca-Cola FEMSA has been entitled to reclaim indirect tax payments made in prior years in Brazil, resulting in the recognition of a tax credit and a positive effect in the operating revenues and other income captions of the condensed consolidated income statements. See note 25.2.1.

(2) During 2019, the Company incurred restructuring costs related to some of their operations as part of an efficiency program.

NOTE 20. OTHER INCOME AND EXPENSES

		2019		2018		2017
Other income:						
Gain on sale of long-lived assets	**Ps.**	**330**	Ps.	399	Ps.	323
Cancellation of contingencies		**567**		162		268
Recoverable taxes		**–**		–		597
Foreign exchange gain related to operating activities		**79**		–		–
Other		**916** (1)		8		354
	Ps.	**1,890**	Ps.	569	Ps.	1,542
Other expenses:						
Provisions for contingencies	**Ps.**	**1,305**	Ps.	818	Ps.	943
Loss on the retirement of long-lived assets		**318**		103		174
Loss on sale of long-lived assets		**288**		221		368
Impairment		**948**		432		–
Severance payments		**1,062** (2)		224		180
Donations		**288**		332		83
Foreign exchange losses related to operating activities		**–**		(25)		2,646
Venezuela impact (Note 3.3)		**–**		–		28,176
Other		**171**		345		329
	Ps.	**4,380**	Ps.	2,450	Ps.	32,899

(1) Following a favorable decision from Brazilian tax authorities received during 2019, Coca-Cola FEMSA has been entitled to reclaim indirect tax payments made in prior years in Brazil, resulting in the recognition of a tax credit and a positive effect in the operating revenues and other income captions of the condensed consolidated income statements. See note 25.2.1.

(2) During 2019, the Company incurred restructuring costs related to some of their operations as part of an efficiency program.

NOTE 21. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The Company uses a three-level fair value hierarchy to prioritize the inputs used to measure the fair value of its financial instruments. The three input levels are described as follows:

- **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.

The Company measures the fair value of its financial assets and liabilities classified as level 1 and 2, applying the income approach method, which estimates the fair value based on expected cash flows discounted to net present value. The following table summarizes the Company's financial assets and liabilities measured at fair value, as of December 31, 2019 and 2018:

	2019		2018	
	LEVEL 1	LEVEL 2	LEVEL 1	LEVEL 2
Derivative financial instruments asset	**Ps. 91**	**Ps. 905**	Ps. —	Ps. 2,605
Derivative financial instruments liability	**47**	**2,191**	236	881
Trust assets of labor obligations	**1,249**	**—**	1,142	—

21.1 Total debt

The fair value of bank loans is calculated based on the discounted value of contractual cash flows whereby the discount rate is estimated using rates currently offered for debt of similar amounts and maturities, which is considered to be level 2 in the fair value hierarchy. The fair value of the Company's publicly traded debt is based on quoted market prices as of December 31, 2019 and 2018, which is considered to be level 1 in the fair value hierarchy (See Note 19).

21.2 Forward agreements to purchase foreign currency

The Company has entered into forward agreements to reduce its exposure to the risk of exchange rate fluctuations among the Mexican peso and other currencies.

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 forwards are recorded as part of "cumulative other comprehensive income". Net gain/loss on expired contracts is recognized as part of foreign exchange or cost of goods sold, depending on the nature of the hedge in the consolidated income statements.

Net changes in the fair value of forward agreements that do not meet hedging criteria for hedge accounting are recorded in the consolidated income statements under the caption "market value gain on financial instruments".

At December 31, 2019, the Company had the following outstanding forward agreements to purchase foreign currency:

		FAIR VALUE	
MATURITY DATE	NOTIONAL AMOUNT	(LIABILITY)	ASSET
2020	**Ps. 7,692**	**Ps. (315)**	**Ps. 20**

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

		FAIR VALUE	
MATURITY DATE	NOTIONAL AMOUNT	(LIABILITY)	ASSET
2019	Ps. 4,768	Ps. (66)	Ps. 109

21.3 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 on financial instruments," as part of the consolidated net income. Net gain/(loss) on expired contracts including the net premium paid, is recognized as part of cost of goods sold when the hedged item is recorded in the consolidated income statements.

At December 31, 2019, the Company paid a net premium of Ps. 3 for the following outstanding collar options to purchase foreign currency:

			FAIR VALUE			
MATURITY DATE		NOTIONAL AMOUNT		(LIABILITY)		ASSET
2020	**Ps.**	**107**	**Ps.**	**—**	**Ps.**	**2**

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

			FAIR VALUE			
MATURITY DATE		NOTIONAL AMOUNT		(LIABILITY)		ASSET
2019	Ps.	1,734	Ps.	(33)	Ps.	57

21.4 Cross-currency swaps

The Company has contracts denominated as interest and cross-currency swaps in order to reduce the risk emanated from interest rate and exchange rate fluctuation in the contracted credits denominated in USD, hedging the total contracted loans as of December 2019. Exchange rate swaps are designated as hedge instruments where the Company changes the debt profile to the functional currency to reduce the exchange rate fluctuation risk.

The fair value is estimated using market prices that would apply to terminate the contracts at the end of the period. For accounting purposes, the cross currency swaps are recorded as both, Cash Flow Hedges in regards to the foreign exchange risk, and Fair Value Hedges in regards to the interest rate risk and related foreign exchange risk. The fair value changes related to exchange rate fluctuations of the notional of those cross currency swaps and the accrued interest are recorded in the consolidated income statements. The remaining portion of the fair value changes, when designated as Cash Flow Hedges, are recorded in the consolidated balance sheet in "cumulative other comprehensive income". If they are designated as Fair Value Hedges the changes in this remaining portion are recorded in the income statements as "market value (gain) loss on financial instruments".

At December 31, 2019, the Company had the following outstanding cross currency swap agreements:

			Fair Value			
Maturity Date		**Notional Amount**		**(Liability)**		**Asset**
2020	**Ps.**	**13,788**	**Ps.**	**(297)**	**Ps.**	**781**
2021		**—**		**—**		**—**
2023		**10,742**		**(594)**		**—**
2027		**6,596**		**(843)**		**—**

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

			Fair Value			
Maturity Date		**Notional Amount**		**(Liability)**		**Asset**
2019	Ps.	4,652	Ps.	—	Ps.	498
2020		14,400		(79)		969
2021		4,035		—		586
2023		11,219		(390)		135
2027		6,889		(42)		202

21.5 Interest Rate swaps

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

At December 31, 2019, the Company had the following outstanding interest rate swap agreements:

			Fair Value			
Maturity Date		**Notional Amount**		**(Liability)**		**Asset**
2020	**Ps.**	**4,365**	**Ps.**	**(142)**		**—**

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

			Fair Value			
Maturity Date		**Notional Amount**		**(Liability)**		**Asset**
2019	Ps.	4,013	Ps.	(49)		—
2020		4,559		(112)		—
2021		4,035		(110)		—

21.6 Treasury Lock contracts

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

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

			FAIR VALUE			
MATURITY DATE	NOTIONAL AMOUNT		(LIABILITY)		ASSET	
2020	**Ps.**	**10,365**	**Ps.**	**—**	**Ps.**	**102**

21.7 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 their fair value are recorded as part of "cumulative other comprehensive income".

The fair value of expired or sold commodity contracts are recorded in cost of goods sold with the hedged items.

As of December 31, 2019, the Company had the following aluminum price contracts:

			FAIR VALUE			
MATURITY DATE	NOTIONAL AMOUNT		(LIABILITY)		ASSET	
2020	**Ps.**	**394**	**Ps.**	**(1)**	**Ps.**	**5**

As of December 31, 2019, the Company had the following PX + MEG (resine) price contracts:

			FAIR VALUE			
MATURITY DATE	NOTIONAL AMOUNT		(LIABILITY)		ASSET	
2020	**Ps.**	**320**	**Ps.**	**(28)**	**Ps.**	**—**

As of December 31, 2019, the Company had the following sugar price contracts:

			FAIR VALUE			
MATURITY DATE	NOTIONAL AMOUNT		(LIABILITY)		ASSET	
2020	**Ps.**	**1,554**	**Ps.**	**(18)**	**Ps.**	**71**
2021	**Ps.**	**98**	**Ps.**	**—**	**Ps.**	**15**

As of December 31, 2018, the Company had the following aluminum price contracts:

		FAIR VALUE	
MATURITY DATE	NOTIONAL AMOUNT	(LIABILITY)	ASSET
2019	Ps. 265	Ps. (17)	Ps. —

As of December 31, 2018, the Company had the following PX + MEG (resine) price contracts

		FAIR VALUE	
MATURITY DATE	NOTIONAL AMOUNT	(LIABILITY)	ASSET
2019	Ps. 1,303	Ps. (131)	Ps. —

As of December 31, 2018, the Company had the following sugar price contracts:

		FAIR VALUE	
MATURITY DATE	NOTIONAL AMOUNT	(LIABILITY)	ASSET
2019	Ps. 1,223	Ps. (88)	Ps. —

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

On December 6, 2016, as part of the purchase price paid for the Company's acquisition of Vonpar, Spal issued and delivered a three-year promissory note to the sellers, for a total amount of 1,166 million Brazilian reais. On November 14, 2018 Spal prepaid an amount for 103 million of USD (393 million of Brazilian real) (and the amount left as of December 31, 2018 is 1,000 million of Brazilian real. The promissory note beareds interest at an annual rate of 0.375%, and was denominated and payable in Brazilian reais. The promissory note was 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 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 had an option, that could 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 Company in exchange for Series L shares at a strike price of Ps.178.5 per share. On December 6, 2019 the Promissory Note matured and the option embedded expired worthless. As such, the Company paid a total amount of 1,000 million of Brazilian real (approximately Ps. 4,676) for the maturity of the Notes.

21.9 Net effects of expired contracts that met hedging criteria

DERIVATIVE	IMPACT IN CONSOLIDATED INCOME STATEMENT	2019	2018	2017
Cross currency swaps [1]	Interest expense	**Ps. 199**	Ps. 157	Ps. 2,102
Cross currency swaps [1]	Foreign exchange	**480**	642	—
Interest rate swaps	Interest expense	**515**	—	—
Option to purchase foreign currency	Cost of good sold	**(63)**	(8)	—
Forward agreements to purchase foreign currency	Cost of good sold	**(163)**	240	89
Commodity Price contracts	Cost of good sold	**(391)**	(258)	(6)

(1) The 2018 amount belong to the Brazilian swaps maturity and the amount for 2017 belongs to the maturity of the Mexico swaps portfolio. Both amounts are disclosed as part of the financial activities in each year.

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

DERIVATIVE	IMPACT IN PROFIT AND LOSS		2019		2018		2017
Forward agreements to purchase foreign currency	Market value (loss) gain on financial statements	**Ps.**	**4**	Ps.	(12)	Ps.	12
Cross currency swaps	Market value (loss) gain on financial statements	**Ps.**	**(293)**		(116)		337

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

TYPE OF DERIVATIVES	IMPACT IN CONSOLIDATED INCOME STATEMENT		2019		2018		2017
Cross-currency swaps	Market value (loss) on financial instruments	**Ps.**	**(293)**	Ps.	(186)	Ps.	(104)
Embedded derivatives	Market value gain on financial instruments		**4**		—		1

21.12 Risk management

The Company has exposure to the following financial risks:

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

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

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

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

21.12.1 Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and commodity prices. The Company enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk, interest rates 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.
- Options 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 and interest rate changes.
- 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, which the Company is exposed to as it relates to foreign exchange rates, interests rates and commodity prices, which it considers in its existing hedging strategy:

	CHANGE IN USD RATE		EFFECT ON EQUITY		PROFIT AND LOSS EFFECT
Forward agreement to purchase U.S. Dollar (MXN/USD)					
2019	**(9%)**	**Ps.**	**(739)**	**Ps.**	**–**
2018	(13%)		(365)		–
2017	(12%)		(602)		–
Forward agreement to purchase U.S. Dollar (BRL/USD)					
2019	**(13%)**	**Ps.**	**(155)**	**Ps.**	**–**
2018	(16%)		(413)		–
2017	(14%)		(234)		–
Forward agreement to purchase U.S. Dollar (COP/USD)					
2019	**(10%)**	**Ps.**	**(54)**	**Ps.**	**–**
2018	(12%)		(2)		–
2017	(9%)		(73)		–
Forward agreement to purchase U.S. Dollar (ARS/USD)					
2019	**(25%)**	**Ps.**	**(88)**	**Ps.**	**–**
2018	(27%)		(522)		–
Forward agreement to purchase U.S. Dollar (UYU/USD)					
2019	**(5%)**	**Ps.**	**(23)**	**Ps.**	**–**
2018	(8%)		(46)		–
Cross currency swaps (USD to MXN)					
2019	**(9%)**	**Ps.**	**(2,315)**	**Ps.**	**–**
2018	(13%)		(3,130)		–
2017	(12%)		(3,540)		–
Cross currency swaps (USD to BRL)					
2019	**(13%)**	**Ps.**	**(645)**	**Ps.**	**–**
2018	(16%)		(9,068)		–
2017	(14%)		(7,483)		–

	CHANGE IN BRL RATE	EFFECT ON EQUITY	PROFIT AND LOSS EFFECT
Interest rate swaps (floating to fixed rates)			
2019	**(100 bps)**	**Ps. (37)**	**Ps. –**
2018	(100 bps)	(1,976)	–

	CHANGE ON SUGAR PRICE	EFFECT ON EQUITY	PROFIT AND LOSS EFFECT
Sugar price contracts			
2019	**(24%)**	**Ps. (255)**	**Ps. –**
2018	(30%)	(341)	–
2017	(30%)	(32)	–

	CHANGE ON ALUMINUM PRICE	EFFECT ON EQUITY	PROFIT AND LOSS EFFECT
Aluminum price contracts			
2019	**(15%)**	**Ps. (1,164)**	**Ps. –**
2018	(22%)	(55)	–
2016	(16%)	(13)	–

	CHANGE ON USD RATE	EFFECT ON EQUITY	PROFIT AND LOSS EFFECT
Options to purchase foreign currency (MXN to USD)			
2019	**(10%)**	**Ps. (6)**	**Ps. –**
2018	(13%)	(303)	–

21.12.2 Interest rate risk

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

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

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

INTEREST RATE RISK	CHANGE IN ON USD RATE	EFFECT ON (PROFIT) OR LOSS	
2019	**+100 bps**	**Ps.**	**(44)**
2018	+100 bps	Ps.	(134)
2017	+100 bps		(251)

21.12.3 Liquidity risk

The Company's principal source of liquidity has generally been cash generated from its operations. A significant majority of the Company's sales are on a short-term credit basis. The Company has traditionally been able to rely on cash generated from operations to fund its capital requirements and its capital expenditures. The Company's working capital benefits from the fact that most of its sales are made on a cash basis, while it generally pays its suppliers on credit. In recent periods, the Company has mainly used cash generated from operations to fund acquisitions. The Company has also used a combination of borrowings from Mexican and international banks and issuances in the Mexican and international capital markets to fund acquisitions.

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 evaluation of the Company's short-, medium- and long-term funding and liquidity requirements. The Company manages liquidity risk by maintaining adequate reserves, and continuously monitoring forecasted and actual cash flows and by maintaining a conservative debt maturity profile.

The Company has access to credit from national and international banking institutions in order to face 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, practicable to remit cash generated in local operations to fund cash requirements in other countries. In the event that cash from operations in these countries is not sufficient to fund future working capital requirements and capital expenditures, management may decide, or be required, to fund cash requirements in these countries through local borrowings rather than remitting funds from another country. In the future management may finance our 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 strategic transactions. The Company would expect to finance any significant future transactions with a combination of cash from operations, long-term indebtedness and capital stock.

See Note 19 for a disclosure of the Company's maturity dates associated with its non-current financial liabilities as of December 31, 2019.

The following table reflects all contractually fixed and variable pay-offs for settlement, repayments and interest resulting from recognized financial liabilities. It includes expected gross cash outflows from derivative financial liabilities that are in place as of December 31, 2019.

Such expected net cash outflows are determined based on each particular settlement date of an instrument. The amounts disclosed are undiscounted net cash outflows for the respective upcoming fiscal years, based on the earliest date on which the Company could be required to pay. Cash outflows for financial liabilities (including interest) without fixed amount or timing are based on economic conditions (like interest rates and foreign exchange rates) existing at December 31, 2019.

(IN MILLIONS OF PS)		2020		2021		2022		2023		2024		2025 AND THEREAFTER
Non-derivative financial liabilities:												
Notes and bonds	**Ps.**	**9,423**	**Ps.**	**2,500**	**Ps.**	**1,500**	**Ps.**	**24,461**	**Ps.**	**—**	**Ps.**	**19,807**
Loans from banks		**2,064**		**912**		**67**		**35**		**23**		**9,400**
Derivatives financial liabilities (assets)		**828**		**1,015**		**1,032**		**979**		**427**		**1,517**

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

21.12.4 Credit risk

Credit risk refers to the risk that 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 is spread amongst approved counterparties.

The Company has a high receivable turnover; hence management believes credit risk is minimal due to the nature of its businesses, which have a large portion of their sales settled in cash. The Company's maximum exposure to credit risk for the components of the statement of financial position at December 31, 2019 and 2018 is the carrying amounts (see Note 7).

The credit risk for liquid funds and derivative financial instruments is limited because the counter parties are highly rated banks as designated 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 a Credit Support Annex (CSA) that establishes margin requirements. As of December 31, 2019 the Company concluded that the maximum exposure to credit risk related with derivative financial instruments is not significant given the high credit rating of its counterparties.

21.13 Cash Flow hedges

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

	MATURITY		
	1-6 MONTHS	6-12 MONTHS	MORE THAN 12
Foreign exchange currency risk			
Foreign exchange currency forward contracts			
Net exposure (in millions of pesos)	3,742	2,086	—
Average exchange rate MXN/USD	20.00	20.20	—
Net exposure (in millions of pesos)	697	303	—
Average exchange rate BRL/USD	4.04	4.16	—
Net exposure (in millions of pesos)	220	85	—
Average exchange rate COP/USD	3,491	3,460	—
Net exposure (in millions of pesos)	137	—	—
Average exchange rate ARS/USD	79.23	—	—
Net exposure (in millions of pesos)	335	87	—
Average exchange rate UYU/USD	37.55	40.03	—
Foreign exchange currency option contracts			
Net exposure (in millions of pesos)	107	—	—
Average exchange rate COP/USD	3,252	—	—
Foreign exchange currency swap contracts			
Net exposure (in millions of pesos)	9,423	—	8,292
Average exchange rate MXN/USD	19.54	—	19.92
Net exposure (in millions of pesos)	—	4,365	9,046
Average exchange rate BRL/USD	—	3.41	4.00
Interest rate risk			
Interest rate swaps			
Net exposure (in millions of pesos)	—	4,365	—
Average interest rate	—	8.34%	—
Treasury Locks			
Net exposure (in millions of pesos)	10,365	—	—
Average interest rate	1.81%	—	—
Commodities risk			
Aluminum (in millions of pesos)	276	118	—
Average price (USD/Ton)	1,796	1,812	—
Sugar (in millions of pesos)	1,192	361	98
Average price (USD cent/Lb)	13.09	12.73	13.45
PX+MEG (in millions of pesos)	160	160	—
Average price (USD /Ton)	848	848	—

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

	MATURITY		
	1-6 MONTHS	6-12 MONTHS	MORE THAN 12
Foreign exchange currency risk			
Foreign exchange currency forward contracts			
Net exposure (in millions of pesos)	3,484	683	—
Average exchange rate MXN/USD	20.19	20.75	—
Net exposure (in millions of pesos)	805	337	—
Average exchange rate BRL/USD	3.75	3.83	—
Net exposure (in millions of pesos)	429	63	—
Average exchange rate COP/USD	2,851	2,976	—
Net exposure (in millions of pesos)	339	—	—
Average exchange rate ARS/USD	43.31	—	—
Net exposure (in millions of pesos)	196	159	—
Average exchange rate UYU/USD	32.9	33.97	—
Foreign exchange currency swap contracts			
Net exposure (in millions of pesos)	—	—	18,502
Average exchange rate MXN/USD	—	—	19.72
Net exposure (in millions of pesos)	—	4,652	18,042
Average exchange rate BRL/USD	—	3.36	3.59
Interest rate risk			
Interest rate swaps			
Net exposure (in millions of pesos)	—	4,013	8,594
Average interest rate	—	6.29%	8.15%
Commodities risk			
Aluminum (in millions of pesos)	189	75	—
Average price (USD/Ton)	1,975	1,986	—
Sugar (in millions of pesos)	725	498	—
Average price (USD cent/Lb)	12.86	13.11	—
PX+MEG (in millions of pesos)	739	565	—
Average price (USD /Ton)	1,077	1,040	—

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

IN MILLIONS OF PESOS	CASH FLOW HEDGE RESERVE	CASH FLOW HEDGE COSTS	REMAINED BALANCES OF CASH FLOW HEDGE RESERVE FROM WHICH HEDGE ACCOUNTING IS NOT APPLIED
Foreign exchange currency risk			
Net sales, trade account receivables and borrowings	—	—	—
Purchase of stock	1	22	—

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

IN MILLIONS OF PESOS	CASH FLOW HEDGE RESERVE	CASH FLOW HEDGE COSTS	REMAINED BALANCES OF CASH FLOW HEDGE RESERVE FROM WHICH HEDGE ACCOUNTING IS NOT APPLIED
Foreign exchange currency risk			
Net sales, trade account receivables and borrowings	—	—	—
Purchase of stock	—	11	—

As of December 31, 2018, cash flow financial instruments amounts and its related non-effective portion were as follows:

IN MILLIONS OF PESOS	NOTIONAL	ASSETS	LIABILITIES	FINANCIAL POSITION CATEGORY IN WHICH THE CASH FLOW HEDGE IS INCLUDED
Foreign exchange currency risk				
Forward contracts:				Other investments including
Net sales, trade accounts				financial derivatives (assets),
receivables and borrowings	—	—	—	trade accounts payable (liabilities)
Purchase of stock	4,768	109	(66)	
Exchange rate swaps	41,195	2,390	(511)	
Interest rate risk				
				Other investments including
				financial derivatives (assets),
Swap interest rate	12,607	—	(271)	trade accounts payable (liabilities)
Commodities risk				
Aluminum	265	—	(17)	
Sugar	1,223	—	(88)	
PX+MEG	1,303	—	(131)	

NOTE 22. NON-CONTROLLING INTEREST IN CONSOLIDATED SUBSIDIARIES

An analysis of Coca-Cola FEMSA's non-controlling interest in its consolidated subsidiaries for the years ended December 31, 2019, 2018 and 2017 is as follows:

		2019		2018		2017
Mexico	**Ps.**	**5,671**	Ps.	5,700	Ps.	5,994
Colombia		**21**		21		23
Brazil		**1,059**		1,085		1,224
Philippines		**–**		–		10,900
	Ps.	**6,751**	Ps.	6,806	Ps.	18,141

Non-controlling interests in Mexico primarily represent the individual results of a Mexican holding company Kristine Overseas, S.A.P.I. de C.V. This entity also has non-controlling stakes in certain Brazilian subsidiaries.

Commencing on February 1, 2017, the Company started consolidating CCFPI's financial results in its financial statements.

As disclosed in Note 5, since its designation as discontinued operation, the Asia segment is no longer reported as a separate segment in Note 27. The sale was completed on December 13, 2018 and the related non- controlling interest was eliminated.

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

		2019		2018		2017
Balance at beginning of the period	**Ps.**	**6,806**	Ps.	18,141	Ps.	7,096
Effects of business combination		**–**		–		11,072
Net income of non-controlling interest		**529**		1,159		1,148
Exchange differences on translation of foreign operations		**(565)**		(1,338)		(1,138)
Re-measurements of the net defined employee benefit liability		**–**		37		38
Valuation of the effective portion of derivative financial instruments, net of taxes		**(16)**		(41)		(74)
Dividends paid		**(3)**		–		(1)
Accounting standard adoption effects (see Note 2.4)		**–**		(12)		–
Philippines deconsolidation		**–**		(11,140)		–
Balance at end of the period	**Ps.**	**6,751**	Ps.	6,806	Ps.	18,141

NOTE 23. EQUITY

23.1 Equity accounts

As of December 31, 2019, the common stock of Coca-Cola FEMSA is represented by 16,806,658,096 common shares, with no par value. Fixed capital stock is Ps. 934 (nominal value) and variable capital is unlimited.

The characteristics of the common shares are as follows:

- Series "A" and series "D" shares are ordinary, have all voting rights and are subject to transfer restrictions;
- Series "A" shares may only be acquired by Mexican individuals and may not represent less than 50.1% of the ordinary shares.
- Series "D" shares have no foreign ownership restrictions and may not represent more than 49.9% of the ordinary shares.
- Series "B" and series "L" are free of transference jointly as long as, they are listed as linked units. In case the related units are unlinked, the types B shares and the types L share will be each be free transfer.

On January 31, 2019, the Board of Coca Cola FEMSA approved:

(i) An eight-for-one stock split (the "Stock Split") of each series of shares of the Company;
(ii) The issuance of Series B ordinary shares with full voting rights;
(iii) The creation of units, comprised of 3 Series B shares and 5 Series L shares, to be listed for trading on the Mexican Stock Exchange ("BMV") and in the form of American depositary shares (ADSs) on the New York Stock Exchange ("NYSE"); and
(iv) Amendments to the Company's bylaws mainly to give effect to the matters approved in paragraphs (i), (ii), and (iii), described above.

On March 22, 2019, the CNBV (Mexican National Banking and Securities Commission) approved and authorized the stock split.

As a result, (i) the percentage of ownership held by the Company's shareholders will not change, and (ii) the percentage of ordinary shares with full voting rights will be adjusted proportionally due to the issuance of the Series B shares, as set forth in the table below.

The capital stock of the Company prior to and immediately after the Stock Split is as follows:

Outstanding shares prior to the Stock Split:

SERIES OF SHARES	SHAREHOLDERS	OUTSTANDING SHARES	% OF THE CAPITAL STOCK	% OF ORDINARY SHARES WITH FULL VOTING RIGHTS
A	Wholly-owned subsidiary of Fomento Económico Mexicano, S.A.B. de C.V.	992,078,519	47.22%	62.96%
D	Wholly-owned subsidiaries of The Coca-Cola Company	583,545,678	27.78%	37.04%
L	Public float	525,208,065	25.01%	0%
Total		2,100,832,262	100%	100%

Outstanding shares after the Stock Split:

SERIES OF SHARES	SHAREHOLDERS	OUTSTANDING SHARES	% OF THE CAPITAL STOCK	% OF ORDINARY SHARES WITH FULL VOTING RIGHTS
A	Wholly-owned subsidiary of Fomento Económico Mexicano, S.A.B. de C.V.	7,936,628,152	47.22%	55.97%
D	Wholly-owned subsidiaries of The Coca-Cola Company	4,668,365,424	27.78%	32.92%
B	Public float	1,575,624,195	9.38%	11.11%
L	Public float	2,626,040,325	15.63%	0%
Total		16,806,658,096	100%	100%

As of December 31, 2019, 2018 and 2017, the number of each share series representing Coca-Cola FEMSA's common stock is comprised as follows:

	THOUSANDS OF SHARES		
SERIES OF SHARES	2019	2018	2017
"A"	**7,936,628**	7,936,628	7,936,628
"B"	**1,575,624**	1,575,624	1,575,624
"D"	**4,668,366**	4,668,366	4,668,366
"L"	**2,626,040**	2,626,040	2,626,040
	16,806,658	16,806,658	16,806,658

The changes in the share are as follows:

	THOUSANDS OF SHARES		
SERIES OF SHARES [(1)]	2019	2018	2017
Initial shares	**16,806,658**	16,806,658	16,659,232
Shares issuance	**—**	—	147,426
Final shares	**16,806,658**	16,806,658	16,806,658

(1) The information for the years ended December 31, 2018 have been adjusted retrospectively for comparative purposes based on the number of shares resulting from the stock split occurred in March 2019.

The net income of the Company is subject to the legal requirement that 5% thereof be transferred to a legal reserve until such reserve amounts to 20% of common stock at nominal value. This reserve may not be distributed to shareholders during the existence of the Company. As of December 31, 2019, 2018 and 2017, this reserve was Ps. 187, Ps. 164 and Ps. 164 respectively included in retained earnings.

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 for restated shareholder contributions and distributions made from net consolidated taxable income, denominated "Cuenta de Utilidad Fiscal Neta" ("CUFIN").

Dividends paid in excess of CUFIN are subject to income tax at a grossed-up rate based on the current statutory rate. Since 2003, this tax may be credited against the income tax of the year in which the dividends are paid, and in the following two years against the income tax and estimated tax payments. The Company's balances of CUFIN amounted to Ps. 12,239 not subject to withholding tax.

For the years ended December 31, 2019, 2018 and 2017 the dividends declared and paid per share by the Company are as follows:

SERIES OF SHARES		2019 (1)		2018		2017
"A"	**Ps.**	**3,512**	Ps.	3,323	Ps.	3,323
"D"		**2,066**		1,955		1,955
"L"		**1,162**		1,100		1,042
"B"		**697**		660		625
	Ps.	**7,437**	Ps.	7,038	Ps.	6,945

(1) At an ordinary shareholders' meeting of Coca-Cola FEMSA held on March 14, 2019, the shareholders declared a dividend of Ps. 7,437 that was paid in May 3, 2019 and November 1, 2019. Represents a dividend of Ps. 3.54 per each ordinary share.

23.2 Capital management

The Company manages its capital to ensure that its subsidiaries will be able to continue as going concerns while maximizing the return to shareholders through the optimization of its debt and equity balance in order to obtain the lowest cost of capital available. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2019 and 2018.

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

The Company's Finance and Planning and the Corporate Practices Committees reviews the capital structure of the Company on a quarterly basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. In conjunction with this objective, the Company seeks to maintain the highest credit rating both national and international, currently rated AAA and A-/A2/A- respectively, which requires us to comply, among others, with the financial metrics that each rating agency considers. For example, some rating agencies maintain a debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio lower than 2.0x. As a result, prior to entering into new business ventures, acquisitions or divestures, management evaluates the impact that these transactions can have on its credit rating.

NOTE 24. EARNINGS PER SHARE

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

Diluted earnings per share amounts are calculated by dividing consolidated net income for the year attributable to equity holders of the parent 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 commitment to capitalize 27.9 million KOF series L shares).

The earnings per share for the years ended December 31, 2018 and 2017 have been adjusted retrospectively for comparative purposes based on the number of shares resulting from the stock split.

Earnings amounts per share type are as follows:

	2019			
	PER SERIES "A" SHARES	PER SERIES "D" SHARES	PER SERIES "B" SHARES	PER SERIES "L" SHARES
Consolidated net income	**Ps. 5,965**	**Ps. 3,508**	**Ps. 1,184**	**Ps. 1,973**
Consolidated net income attributable to equity holders of the parent- continuing operations	**5,714**	**3,361**	**1,135**	**1,891**
Weighted average number of shares for basic earnings per share (millions of shares)	**7,937**	**4,668**	**1,576**	**2,626**

	2018			
	PER SERIES "A" SHARES	PER SERIES "D" SHARES	PER SERIES "B" SHARES	PER SERIES "L" SHARES
Consolidated net income	Ps. 7,116	Ps. 4,186	Ps. 1,413	Ps. 2,355
Consolidated net income attributable to equity holders of the parent- continuing operations	5,164	3,038	1,025	1,709
Consolidated net income attributable to equity holders of the parent- discontinued operation	1,405	826	279	465
Weighted average number of shares for basic earnings per share (millions of shares)	7,937	4,668	1,576	2,626

	2017			
	PER SERIES "A" SHARES	PER SERIES "D" SHARES	PER SERIES "B" SHARES	PER SERIES "L" SHARES
Consolidated net loss	Ps. (6,073)	Ps. (3,572)	Ps. (1,184)	Ps. (1,973)
Consolidated net loss attributable to equity holders of the parent- continuing operations	(7,618)	(4,480)	(1,485)	(2,475)
Consolidated net income attributable to equity holders of the parent- discontinued operation	(1,545)	908	301	502
Weighted average number of shares for basic earnings per share (millions of shares)	7,937	4,668	1,547	2,579

NOTE 25. INCOME TAXES

25.1 Income Tax

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

		2019		2018		2017
Current tax expense:						
Current year	**Ps.**	**6,011**	Ps.	4,763	Ps.	6,108
Deferred tax expense:						
Origination and reversal of temporary differences		**905**		1,579		(1,859)
(Benefit) utilization of tax losses recognized		**(1,268)**		(1,082)		(65)
Total deferred tax income expense (benefit)		**(363)**		497		(1,924)
Total income tax expense in consolidated net income	**Ps.**	**5,648**	Ps.	5,260	Ps.	4,184

2019		MEXICO		FOREIGN		TOTAL
Current tax expense:						
Current year	**Ps.**	**5,123**	Ps.	888	Ps.	6,011
Deferred tax expense:						
Origination and reversal of temporary differences		**(438)**		1,343		905
(Benefit) utilization of tax losses recognized		**(1,136)**		(132)		(1,268)
Total deferred tax (benefit)		**(1,574)**		1,211		(363)
Total income tax expense in consolidated net income	**Ps.**	**3,549**	Ps.	2,099	Ps.	5,648

2018		MEXICO		FOREIGN		TOTAL
Current tax expense:						
Current year	Ps.	3,545	Ps.	1,218	Ps.	4,763
Deferred tax expense:						
Origination and reversal of temporary differences		(283)		1,862		1,579
(Benefit) utilization of tax losses recognized		(679)		(403)		(1,082)
Total deferred tax (benefit)		(962)		1,459		497
Total income tax expense in consolidated net income	Ps.	2,583	Ps.	2,677	Ps.	5,260

2017		MEXICO		FOREIGN		TOTAL
Current tax expense:						
Current year	Ps.	3,874	Ps.	2,234	Ps.	6,108
Deferred tax expense:						
Origination and reversal of temporary differences		(1,798)		(61)		(1,859)
(Benefit) utilization of tax losses recognized		179		(244)		(65)
Total deferred tax (benefit)		(1,619)		(305)		(1,924)
Total income tax expense in consolidated net income	Ps.	2,255	Ps.	1,929	Ps.	4,184

Recognized in Consolidated Statement of Other Comprehensive Income (OCI)

		2019		2018		2017
Income tax related to items charged or recognized directly in OCI during the year:						
Unrealized (gain) loss on cash flow hedges	**Ps.**	**(373)**	Ps.	(208)	Ps.	(160)
Remeasurements of the net defined benefit liability		**(192)**		152		(61)
Total income tax recognized in OCI	**Ps.**	**(565)**	Ps.	(56)	Ps.	(221)

Balance of income tax included in Accumulated Other Comprehensive Income (AOCI) as of:

		2019		2018		2017
Income tax related to items charged or recognized directly in OCI as of year-end:						
Unrealized loss (gain) on derivative financial instruments	**Ps.**	**(481)**	Ps.	(128)	Ps.	59
Comprehensive income to be reclassified to profit or loss in subsequent periods		**(481)**		(128)		59
Re-measurements of the net defined benefit liability		**(240)**		(56)		(199)
Balance of income tax in AOCI	**Ps.**	**(721)**	Ps.	(184)	Ps.	(140)

A reconciliation between income tax expense and income (loss) 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 statutory tax rate for the years ended December 31, 2019, 2018 and 2017 is as follows:

	2019	2018	2017
Mexican statutory income tax rate	**30%**	30%	30%
Income tax from prior years	**(2.66)**	(0.50)	3.16
(Loss) on monetary position for subsidiaries in hyperinflationary economies	**(0.50)**	(0.96)	4.26
Annual inflation tax adjustment	**0.78**	(0.32)	(3.65)
Non-deductible expenses	**3.92**	2.43	(5.54)
Non-taxable income	**—**	(0.78)	1.17
Income taxed at a rate other than the Mexican statutory rate	**1.28**	1.69	(2.54)
Effect of restatement of tax values	**(1.47)**	(3.38)	5.53
Effect of change in statutory rate	**(0.52)**	(0.38)	0.20
Income tax credits	**(0.18)**	(0.13)	9.68
Effect of Venezuela (Note 3.3)	**—**	—	(75.56)
Tax loss	**(1.01)**	1.04	(6.00)
Other	**1.04**	1.89	2.12
	30.68%	30.60%	(37.17)%

In 2017, the Venezuela deconsolidation impacted significantly the effective tax rate. Had this effect not occurred, the effective tax rate would have been 28.12%

Deferred income tax

An analysis of the temporary differences giving rise to deferred income tax liabilities (assets) is as follows:

	CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF		CONSOLIDATED INCOME STATEMENT		
	2019	**2018**	**2019**	**2018**	**2017**
Allowance for doubtful accounts	**Ps. (60)**	Ps. (33)	**Ps. (18)**	Ps. 76	Ps. 16
Inventories	**(61)**	(32)	**(37)**	(33)	(60)
Prepaid expenses	**43**	3	**41**	(19)	5
Property, plant and equipment, net [1]	**(863)**	(1,051)	**128**	(392)	(1,783)
Rights of use assets	**197**	—	**197**	—	—
Other assets	**20**	38	**24**	74	(166)
Finite useful lived intangible assets	**148**	225	**(78)**	182	761
Indefinite lived intangible assets	**1,039**	1,081	**114**	31	743
Post-employment and other non-current employee benefits	**(387)**	(457)	**65**	(114)	(56)
Derivative financial instruments	**(7)**	3	**(12)**	(39)	(44)
Contingencies	**(2,169)**	(2,209)	**(94)**	1,146	(886)
Employee profit sharing payable	**(201)**	(184)	**17**	—	6
Tax loss carryforwards	**(9,224)**	(8,358)	**(1,268)**	(1,082)	(13)
Tax credits to recover [2]	**(1,855)**	(1,855)	**(122)**	(109)	(1,159)
Cumulative other comprehensive income	**(721)**	(184)	**29**	(54)	(224)
Liabilities of amortization of goodwill of business acquisition	**7,663**	7,299	**860**	1,125	(554)
Financial leasing	**(190)**	—	**(190)**	—	—
Other liabilities	**(33)**	132	**(19)**	(295)	1,490
Deferred tax (income)			**Ps. (363)**	Ps. 497	Ps. (1,924)
Deferred tax, asset	**Ps. (10,432)**	Ps. (8,438)			
Deferred tax, liability	**3,771**	2,856			
Deferred income taxes, net	**Ps. (6,661)**	Ps. (5,582)			

[1] Correspond to income tax credits arising from dividends received from foreign subsidiaries to be recovered within the next ten years accordingly to the Mexican Income Tax law as well as effects of the exchange of foreign currencies with Related and Non-Related Parties.

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

		2019		2018		2017
Balance at beginning of the period	**Ps.**	**(5,582)**	Ps.	(6,298)	Ps.	(4,776)
Deferred tax provision for the period		**(363)**		497		(1,763)
Change in the statutory rate		**(66)**		63		–
Acquisition of subsidiaries, see Note 4		**57**		(413)		(563)
Venezuela effect		**–**		–		261
Effects in equity:						
Unrealized (gain) on derivative financial instruments		**(373)**		(21)		(160)
Cumulative translation adjustment		**(230)**		31		221
Remeasurements of the net defined benefit liability		**(192)**		152		(61)
Inflation adjustment		**88**		20		543
Philippines disposal		**–**		387		–
Balance at end of the period	**Ps.**	**(6,661)**	Ps.	(5,582)	Ps.	(6,298)

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 levied by the same tax authority.

The Company has determined that undistributed profits of its subsidiaries, will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, associates and joint ventures, for which deferred tax liabilities have not been recognized, aggregate to December 31, 2019: Ps. 13,187, December 31, 2018: Ps. 9,237 and, December 31, 2017: Ps. 5,847.

Tax Loss Carryforwards

Some subsidiaries in Mexico, Colombia and Brazil have tax loss carryforwards. Unused tax loss carryforwards, for which a deferred income tax asset has been recognized, may be recovered provided certain requirements are fulfilled. The tax losses carryforwards for which deferred tax asset has been recorded and their corresponding years of expiration are as follows:

		TAX LOSS CARRYFORWARDS AMOUNTS IN MILLIONS
2024	**Ps.**	**1**
2025		**4,714**
2026		**4,655**
2027		**–**
2028		**2,188**
2029 and thereafter		**3,243**
No expiration (Brazil)		**14,070**
	Ps.	**28,871**

During 2013, the Company completed certain acquisitions in Brazil. In connection with the acquisitions in Brazil the Company recorded certain goodwill balances that are deductible for Brazilian income tax reporting purposes. The deduction of such goodwill amortization has resulted in the creation of Net Operating Losses (NOLs) in Brazil which NOLs have no expiration, but their usage is limited to 30% of Brazilian taxable income in any given year. As of December 31, 2019 and 2018 the Company believes that it is more likely than not that it will ultimately recover such NOLs through the reversal of temporary differences and future taxable income. Accordingly, the related deferred tax assets have been fully recognized.

Additionally as of December 31, 2019 and 2018, the Company has unused tax losses in Colombia for an amount of Ps. 2 and Ps. 2, respectively.

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

		2019		2018		2017
Balance at beginning of the period	**Ps.**	**25,879**	Ps.	24,817	Ps.	24,791
Increase		**6,029**		3,398		3,334
Usage of tax losses		**(1,854)**		(352)		(2,723)
Effect of foreign currency exchange rates		**(1,183)**		(1,984)		(585)
Balance at end of the period	**Ps.**	**28,871**	Ps.	25,879	Ps.	24,817

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

25.2 Recoverable taxes

Recoverable taxes are mainly integrated by higher provisional payments of income tax during 2019 in comparison to current year, which will be compensated in future years.

The operations in Guatemala, Colombia, Nicaragua and Panama are subject to a minimum tax. In Guatemala and Colombia this tax is recoverable under certain circumstances only. Guatemala tax basis is determined considering the highest between total assets and net income; in Colombia tax basis is equity.

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

On March 15, 2017 the Brazilian Federal Supreme Court (STF) ruled that the inclusion of the VAT (ICMS) on federal sales taxes (PIS and COFINS) taxable basis is unconstitutional. During 2019, our companies in Brazil obtained conclusive favorable motions over this exclusion of VAT (ICMS) over PIS / COFINS calculation. The net favorable effects of each case are to be recorded at the time all formalities and legal procedures are finalized and the asset become virtually certain. During 2019, it was concluded the administrative formalities for one of the motions and the recoverable taxes for this motion were recorded in the income statement.

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

25.3 Tax Reform

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

In addition, the excise tax on concentrate in Brazil was reduced from 20.0% to 4.0% from September 1, 2018 to December 31, 2018. Temporarily the excise tax rate on concentrate increased from 4.0% to 12.0% from January 1, 2019 to June 30, 2019, and then it was reduced to 8.0% from July 1, 2019 to September 30, 2019, and increased to 10.0% from October 1, 2019 to December 31, 2019. On January 1, 2020 the excise tax rate will be reduced back to 4.0%.

On January 1, 2017, a general tax reform in Colombia reduced the 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 the free trade zone, this reform imposed an extra income tax rate of 6.0% for 2017 and 4.0% for 2018.

For taxpayers located in the free trade zone, the special income tax rate increased from 15.0% to 20.0% for 2017. Additionally, the reform eliminated the temporary tax on net equity, the supplementary income tax at a rate of 9.0% as 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.

On January 1, 2019, a new tax reform became effective in Colombia. This reform reduced the income tax rate from 33.0% to 32.0% for 2020, to 31.0% for 2021 and to 30.0% for 2022. The minimum assumed income tax (renta presuntiva sobre el patrimonio) was also reduced from 3.5% to 1.5% for 2019 and 2020, and to 0% for 2021. In addition, the thin capitalization ratio was adjusted from 3:1 to 2:1 for operations with related parties only.

Effective January 1, 2019, the value-added tax was calculated at each sale instead of applied only to the first sale (being able to transfer the value-added tax throughout the entire supply chain). For the companies located in the free trade zone, the value-added tax was calculated based on the cost of production instead of the cost of the imported raw materials (therefore, we were able to credit the value added-tax on goods and services against the value added-tax on the sales price of our products). The municipality sales tax was 50.0% credited against payable income tax for 2019 and 100.0% credited for 2020. Finally, the value-added tax paid on acquired fixed assets can be credited against income tax or the minimum assumed income tax.

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

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

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

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

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

Regarding sales tax in the province of Buenos Aires, the tax rate decreased from 1.75% to 1.5% valid since 2018; while in the City of Buenos Aires, the tax rate increased from 1.0% to 2.0% in 2018, and was be reduced to 1.5% in 2019, and will be reduced to 1.0% in 2020, to 0.5% in 2021 and will be zero in 2022.

Effective January 1, 2019, the Mexican government eliminated the right to offset any tax credit against any payable tax (general offset or compensación universal). As of such date, the right to offset any tax credit will be against taxes of the same nature and payable by the same person (not being able to offset tax credits against taxes payable by third parties).

On October 30, 2019, Mexico approved a new Tax Reform, which became effective on January 1, 2020.

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

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

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

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

NOTE 26. OTHER LIABILITIES, PROVISIONS AND COMMITMENTS

26.1 Other current financial liabilities

		2019		2018
Sundry creditors	**Ps.**	**482**	Ps.	182
Derivative financial instruments		**802**		384
Total	**Ps.**	**1,284**	Ps.	566

26.2 Provisions and other non-current liabilities

		2019		2018
Provisions	**Ps.**	**7,983**	Ps.	8,298
Taxes payable		**227**		371
Other		**581**		759
Total	**Ps.**	**8,791**	Ps.	9,428

26.3 Other non-current financial liabilities

		2019		2018
Derivative financial instruments	**Ps.**	**1,436**	Ps.	733
Security deposits		**461**		643
Total	**Ps.**	**1,897**	Ps.	1,376

26.4 Provisions recorded in the consolidated statement of financial position

The Company has various loss contingencies, and has recorded reserves as other liabilities for those legal proceedings for which it believes an unfavorable resolution is probable. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2019 and 2018:

		2019		2018
Taxes	**Ps.**	**4,696**	Ps.	5,038
Labor		**2,222**		2,340
Legal		**1,065**		920
Total	**Ps.**	**7,983**	Ps.	8,298

26.5. Changes in the balance of provisions recorded

26.5.1 Taxes

		2019		2018		2017
Balance at beginning of the period	**Ps.**	**5,038**	Ps.	6,717	Ps.	10,223
Penalties and other charges		**1**		7		148
New contingencies		**368**		178		4
Cancellation and adjustments		**(247)**		(44)		(98)
Contingencies added in business combinations		**—**		104		861
Payments		**(68)**		(110)		(944)
Brazil tax amnesty		**—**		—		(3,069)
Effect of foreign currency exchange rates		**(396)**		(951)		(408)
Philippines disposal		**—**		(863)		—
Balance at end of the period	**Ps.**	**4,696**	Ps.	5,038	Ps.	6,717

26.5.2 Labor

		2019		2018		2017
Balance at beginning of the period	**Ps.**	**2,340**	Ps.	2,365	Ps.	2,356
Penalties and other charges		**249**		279		56
New contingencies		**465**		205		115
Cancellation and expiration		**(273)**		(109)		(33)
Contingencies added in business combinations		**44**		289		–
Payments		**(401)**		(20)		(76)
Effects of foreign currency exchange rates		**(202)**		(669)		(52)
Effect of Venezuela deconsolidation (Note 3.3)		**–**		–		(1)
Balance at end of the period	**Ps.**	**2,222**	Ps.	2,340	Ps.	2,365

26.5.3 Legal

		2019		2018		2017
Balance at beginning of the period	**Ps.**	**920**	Ps.	1,985	Ps.	1,049
Penalties and other charges		**94**		86		121
New contingencies		**128**		61		170
Cancellation and expiration		**(45)**		(9)		(16)
Contingencies added in business combinations		**77**		67		783
Payments		**(44)**		(251)		(80)
Brazil tax amnesty		**–**		–		7
Effects of foreign currency exchange rates		**(65)**		(135)		(47)
Effects of Venezuela deconsolidation (Note 3.3)		**–**		–		(2)
Philippines disposal		**–**		(884)		–
Balance at end of the period	**Ps.**	**1,065**	Ps.	920	Ps.	1,985

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

26.6 Unsettled lawsuits

The Company has entered into several proceedings with its labor unions, tax authorities and other parties that primarily involve Coca-Cola FEMSA and its subsidiaries. These proceedings have resulted in the ordinary course of business and are common to the industry in which the Company operates. Such contingencies were classified by the Company as less than probable but not remote, the estimated amount including uncertain tax position as of December 31, 2019 of these lawsuits is Ps. 77,649, however, the Company believes that the ultimate resolution of such proceedings will not have a material effect on its consolidated financial position or result of operations.

The Company has tax contingencies, most of which are related to its Brazilian operations, with loss expectations assessed by management and supported by the analysis of legal counsel considered as possible. The main possible contingencies of Brazilian operations amounting to approximately Ps. 53,937. This refers to various tax disputes related primarily to: (i) Ps. 10,378 of credits for ICMS (VAT); (ii) Ps. 34,102 related to tax credits of IPI over raw materials acquired from Free Trade Zone Manaus; (iii) Claims of Ps. 6,274 related to compensation of federal taxes not approved by the Tax authorities; and (iv) Ps. 3,183 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. The Company is defending its position in these matters and final decision is pending in court.

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

26.7 Collateralized contingencies

As is customary in Brazil, the Company has been required by the tax authorities there to collateralize tax contingencies currently in litigation amounting to Ps. 10,471, Ps. 7,739 and Ps. 9.433 as of December 31, 2019, 2018 and 2017, respectively, by pledging fixed assets and entering into available lines of credit covering the contingencies. Also as disclosed in Note 9.2 there is some restricted cash in Brazil relates to short term deposits in order to fulfill the collateral requirements for accounts payable.

26.8 Commitments

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

NOTE 27. INFORMATION BY SEGMENT

The Company's chief operating decision maker ("CODM") is the Chief Executive Officer, who periodically reviews financial information at the country level. Thus, each of the separate countries in which the Company operates is considered and operating segments, with the exception of the countries in Central America which represent a single operating segment.

The Company has aggregated operating segments into the following reporting segments for the purposes of its consolidated financial statements: (i) Mexico and Central America division (comprising the following countries: Mexico (including corporate operations), Guatemala, Nicaragua, Costa Rica and Panama), and (ii) the South America division (comprising the following countries: Brazil, Argentina, Colombia, and Uruguay); Venezuela (consolidated until 2017) operated in an economy with exchange control and/ or hyper-inflation and, as a result, apply IAS 29, "Financial Reporting in Hyperinflationary Economies," which does not allow the Company from aggregating their results with those of other countries in the South America segment. The Company's results for 2017 reflect a reduction in the 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 disclosed in Note 3.3, the Company deconsolidated its operations in Venezuela as of December 31, 2017, consequently there is no financial information for this segment in 2018 and future years.

The Company is of the view that the quantitative and qualitative aspects of the aggregated operating segments are similar in nature for all periods presented. In evaluating the appropriateness of aggregating operating segments, the key indicators considered included but were not limited to:(i) similarities of customer base, products, production processes and distribution processes, (ii) similarities of governments, (iii) inflation trends, since hyper-inflationary economy has different characteristics that carry out to making decision on how to deal with the cost of the production and distribution, Venezuela (up until 2017) has been presented as a separate segment, (iv) currency trends and (v) historical and projected financial and operating statistics, historically and according to our estimates the financial trends of the countries aggregated into an operating segment have behaved in similar ways and are expected to continue to do so.

Segment disclosure for the Company's consolidated operations is as follows:

2019		MEXICO AND CENTRAL AMERICA (1)		SOUTH AMERICA (2)		CONSOLIDATED
Total revenues	Ps.	**109,249**	Ps.	**85,222**	Ps.	**194,471**
Intercompany revenue		**5,673**		**15**		**5,688**
Gross profit		**52,384**		**35,123**		**87,507**
Income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method		**10,349**		**8,060**		**18,409**
Depreciation and amortization		**6,380**		**4,262**		**10,642**
Non-cash items other than depreciation and amortization		**878**		**205**		**1,083**
Equity in earnings (loss) of associated companies and joint ventures		**(177)**		**46**		**(131)**
Total assets		**147,374**		**110,465**		**257,839**
Investments in associate companies and joint ventures		**6,198**		**3,553**		**9,751**
Total liabilities		**95,694**		**32,460**		**128,154**
Capital expenditures, net (3)		**6,677**		**4,788**		**11,465**

2018		MEXICO AND CENTRAL AMERICA (1)		SOUTH AMERICA (2)		CONSOLIDATED
Total revenues	Ps.	100,162	Ps.	82,180	Ps.	182,342
Intercompany revenue		5,143		17		5,160
Gross profit		48,162		35,776		83,938
Income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method		7,809		9,381		17,190
Depreciation and amortization		5,551		3,852		9,403
Non-cash items other than depreciation and amortization		1,249		132		1,381
Equity in earnings (loss) of associated companies and joint ventures		326		(100)		(226)
Total assets		147,748		116,039		263,787
Investments in associate companies and joint ventures		6,789		3,729		10,518
Total liabilities		96,525		35,512		132,037
Capital expenditures, net (3)		6,574		4,495		11,069

2017 (RESTATED)[(4)]	MEXICO AND CENTRAL AMERICA[(1)]	SOUTH AMERICA[(2)]	VENEZUELA	CONSOLIDATED
Total revenues	Ps. 92,643	Ps. 86,608	Ps. 4,005	Ps.183,256
Intercompany revenue	4,661	18	—	4,679
Gross profit	45,106	37,756	646	83,508
Income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method	(18,261)	8,792	(1,786)	(11,255)
Depreciation and amortization	4,801	3,442	807	9,050
Non-cash items other than depreciation and amortization	1,011	213	1,021	2,245
Equity in earnings (loss) of associated companies and joint ventures	(63)	123	—	60
Total assets	163,635	122,042	—	285,677
Investments in associate companies and joint ventures	7,046	4,455	—	11,501
Total liabilities	101,330	43,637	—	144,967
Capital expenditures, net [(3)]	8,245	4,686	—	12,931

(1) Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico only) revenues were Ps. 91,358, Ps. 84,352 and Ps. 79,836 during the years ended December 31, 2019, 2018 and 2017, respectively. Domestic (Mexico only) total assets were Ps. 145,389, Ps. 130,865 and Ps. 133,315 as of December 31, 2019, 2018 and 2017, respectively. Domestic (Mexico only) total liabilities were Ps. 91,831, Ps. 92,340 and Ps. 88,283 as of December 31, 2019, 2018 and 2017, respectively.

(2) South America includes Brazil, Argentina, Colombia and Uruguay, although Venezuela is shown separately above for 2017. South America revenues include Brazilian revenues of Ps. 60,670, Ps. 56,523 and Ps. 58,518 during the years ended December 31, 2019, 2018 and 2017, respectively. Brazilian total assets were Ps. 81,230, Ps. 86,007 and Ps. 95,713 as of December 31, 2019, 2018 and 2017, respectively. Brazilian total liabilities Ps. 79,136, Ps. 26,851 and Ps. 31,580 as of December 31, 2019, 2018 and 2017, respectively. South America revenues also include Colombian revenues of Ps. 13,522, Ps. 14,580 and Ps. 14,222 during the years ended December 31, 2019, 2018 and 2017, respectively. Colombian total assets were Ps. 12,153, Ps. 17,626 and Ps. 14,180 as of December 31, 2019, 2018 and 2017, respectively. Colombian total liabilities were Ps. 4,154, Ps. 4,061 and Ps. 7,993 as of December 31, 2019, 2018 and 2017, respectively. South America revenues also include Argentine revenues of Ps. 6,725, Ps. 9,152 and Ps. 13,869 during the years ended December 31, 2019, 2018 and 2017, respectively. Argentine total assets were Ps. 5,038, Ps. 6,021 and Ps. 5,301 as of December 31, 2019, 2018 and 2017, respectively. Argentine total liabilities were Ps. 1,637, Ps. 2,059 and Ps. 3,660 as of December 31, 2019, 2018 and 2017, respectively. South America revenues also include Uruguay revenues of Ps. 3,421 and Ps. 1,925, during the years ended on December 31, 2019 and 2018, respectively. Uruguay total assets were Ps. 3,312 and Ps. 6,385 as of December 31, 2019 and 2018, respectively. Uruguay total liabilities were Ps. 2,566 and Ps. 2,541, as of December 31, 2019 and 2018, respectively.

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

(4) Restated due to Philippines disincorporation

NOTE 28. FUTURE IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS NOT YET IN EFFECT:

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

Modifications to the Conceptual Framework

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

a) Help to the IASB to develop standards that are based on consistent concepts;
b) Assist to preparers to develop congruent accounting policies when no Standard is applicable to a specific transaction or event, or when a Standard allows an accounting policy option; and
c) Help to all parties to understand and interpret the Standards.

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

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

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

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

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

The definition of material or relative importance helps to the Company to determine whether information about an item, transaction or other event should be provided to the users of the financial statements. However, the Companies had difficulty using the above definition of material or with relative importance in making materiality judgments or with relative importance in the preparation of the financial statements. Accordingly, the IASB published the Definition of Material or Relative Importance (Amendments to IAS 1 and IAS 8) in October 2018. The amendments to IAS 1 and IAS 8 will be effective on January 1, 2020 and its early application is allowed.

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

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

The amendments to IFRS 9

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

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

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

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

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

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

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

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

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

NOTE 29. SUPPLEMENTAL GUARANTOR INFORMATION

Condensed Consolidating Financial Information

The following consolidating information presents condensed consolidating statements of financial position as of December 31, 2019 and 2018 and condensed consolidating statements of income, other comprehensive income and cash flows for each of the three years in the period ended December 31, 2019, 2018 and 2017 of the Company and 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. (the Guarantors).

These statements are prepared in accordance with IFRS, as issued by the IASB, with the exception that the subsidiaries are accounted for as investments under the equity method rather than being consolidated. The guarantees of the Guarantors are full and unconditional.

The accounting policies applied in the preparation of the condensed financial statements is the same as those used in the preparation of the consolidated financial statements (see Note 3).

The Company's consolidating condensed financial information for the (i) Company; (ii) its 100% owned guarantors subsidiaries (on standalone basis), which are wholly and unconditional guarantors under both prior years debt and current year debt referred to as "Senior Notes" in Note 19; (iii) the combined non-guarantor subsidiaries; iv) eliminations and v) the Company's consolidated financial statements are as follows:

	PARENT	COMBINED WHOLLY-OWNED GUARANTORS SUBSIDIARIES	COMBINED NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
		CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2019			
Assets:					
Current assets:					
Cash and cash equivalents	Ps. 9,849	Ps. 4,464	Ps. 6,178	Ps. —	Ps. 20,491
Accounts receivable, net	18,832	28,528	59,730	(91,614)	15,476
Inventories	—	1,462	9,076	—	10,538
Recoverable taxes	189	1,474	5,904	—	7,567
Other current assets	188	522	2,014	—	2,724
Total current assets	29,058	36,450	82,902	(91,614)	56,796
Non-current assets:					
Investments in other entities	153,782	147,846	3,571	(295,448)	9,751
Rights of use assets	—	594	788	—	1,382
Property, plant and equipment, net	—	19,130	42,057	—	61,187
Intangible assets, net	27,608	36,501	47,941	—	112,050
Deferred tax assets	4,411	2,208	3,813	—	10,432
Other non-current assets	22,697	5,742	19,663	(41,861)	6,241
Total non-current assets	208,498	212,021	117,833	(337,309)	201,043
Total assets	Ps. 237,556	Ps. 248,471	Ps. 200,735	Ps. (428,923)	Ps. 257,839
Liabilities:					
Current liabilities:					
Short-term bank loans and notes payable and current portion of non-current debt	Ps. 9,421	Ps. —	Ps. 2,064	Ps. —	Ps. 11,485
Current portion of lease liabilities	—	143	340	—	483
Interest Payable	422	—	17	—	439
Suppliers	11	3,735	16,225	(139)	19,832
Other current liabilities	33,151	48,249	28,846	(91,475)	18,771
Total current liabilities	43,005	52,127	47,492	(91,614)	51,010
Non-current liabilities:					
Bank loans and notes payable	57,455	—	1,037	—	58,492
Lease liabilities	—	452	448	—	900
Other non-current liabilities	14,161	36,797	8,653	(41,859)	17,752
Total non-current liabilities	71,616	37,249	10,138	(41,859)	77,144
Total liabilities	114,621	89,376	57,630	(133,473)	128,154
Equity:					
Equity attributable to equity holders of the parent	122,935	159,095	136,354	(295,450)	122,934
Non-controlling interest in consolidated subsidiaries	—	—	6,751	—	6,751
Total equity	122,935	159,095	143,105	(295,450)	129,685
Total liabilities and equity	Ps. 237,556	Ps. 248,471	Ps. 200,735	Ps. (428,923)	Ps. 257,839

	PARENT	COMBINED WHOLLY-OWNED GUARANTORS SUBSIDIARIES	COMBINED NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
	CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2018				
Assets:					
Current assets:					
Cash and cash equivalents	Ps. 16,529	Ps. 1,025	Ps. 6,173	Ps. —	Ps. 23,727
Accounts receivable, net	19,388	31,461	51,028	(87,030)	14,847
Inventories	—	2,717	7,334	—	10,051
Recoverable taxes	80	1,870	4,088	—	6,038
Other current assets	—	170	2,657	—	2,827
Total current assets	35,997	37,243	71,280	(87,030)	57,490
Non-current assets:					
Investments in associates and joint ventures	160,014	131,357	3,766	(284,619)	10,518
Property, plant and equipment, net	—	18,378	43,564	—	61,942
Intangible assets, net	27,824	36,361	52,619	—	116,804
Deferred tax assets	3,043	1,807	3,588	—	8,438
Other non-current assets and financial assets	19,060	6,282	25,149	(41,896)	8,595
Total non-current assets	209,941	194,185	128,686	(326,515)	206,297
Total assets	Ps. 245,938	Ps. 231,428	Ps. 199,966	Ps. (413,545)	Ps. 263,787
Liabilities:					
Current liabilities:					
Short-term bank loans and notes payable and current portion of non-current debt	Ps. 4,700	Ps. —	Ps. 6,904	Ps. —	Ps. 11,604
Interest Payable	477	—	20	—	497
Suppliers	11	2,531	17,257	(53)	19,746
Other current liabilities	32,909	82,359	(14,614)	(86,977)	13,677
Total current liabilities	38,097	84,890	9,567	(87,030)	45,524
Non-current liabilities:					
Bank loans and notes payable	68,607	—	1,594	—	70,201
Other non-current liabilities	14,292	670	43,246	(41,896)	16,312
Total non-current liabilities	82,899	670	44,840	(41,896)	86,513
Total liabilities	120,996	85,560	54,407	(128,926)	132,037
Equity:					
Equity attributable to equity holders of the parent	124,942	145,868	138,753	(284,619)	124,944
Non-controlling interest in consolidated subsidiaries	—	—	6,806	—	6,806
Total equity	124,942	145,868	145,559	(284,619)	131,750
Total liabilities and equity	Ps. 245,938	Ps. 231,428	Ps. 199,966	Ps. (413,545)	Ps. 263,787

	PARENT	COMBINED WHOLLY-OWNED GUARANTORS SUBSIDIARIES	COMBINED NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
		CONDENSED CONSOLIDATING INCOME STATEMENTS: FOR THE YEAR ENDED DECEMBER 31, 2019			
Total revenues	Ps. 2	Ps. 96,169	Ps. 155,767	Ps. (57,467)	Ps.194,471
Cost of goods sold	—	54,714	101,268	(49,018)	106,964
Gross profit	2	41,455	54,499	(8,449)	87,507
Administrative expenses	404	3,194	7,815	(2,986)	8,427
Selling expenses	—	24,308	33,265	(5,463)	52,110
Other expenses (income), net	3	1,579	908	—	2,490
Interest expense, net	4,568	3,745	(2,639)	—	5,674
Foreign exchange (loss) gain, net	379	(80)	(629)	—	(330)
Other financing (expense) income, net	—	—	(67)	—	(67)
Income taxes	(1,105)	2,536	4,217	—	5,648
Share of the profit of subsidiaries, associates and joint ventures accounted for using the equity method, net of taxes	15,590	11,676	48	(27,445)	(131)
Consolidated Net income	Ps. 12,101	Ps. 17,689	Ps. 10,285	Ps. (27,445)	Ps. 12,630
Attributable to:					
Equity holders of the parent	12,101	17,689	9,756	(27,445)	12,101
Non-controlling interest	—	—	529	—	529
Consolidated Net income	Ps. 12,101	Ps. 17,689	Ps. 10,285	Ps. (27,445)	Ps. 12,630

	PARENT	COMBINED WHOLLY-OWNED GUARANTORS SUBSIDIARIES	COMBINED NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
		CONDENSED CONSOLIDATING INCOME STATEMENTS: FOR THE YEAR ENDED DECEMBER 31, 2018			
Total revenues	Ps. 1	Ps. 86,736	Ps. 165,325	Ps. (69,720)	Ps. 182,342
Cost of goods sold	—	49,104	108,671	(59,371)	98,404
Gross profit	1	37,632	56,654	(10,349)	83,938
Administrative expenses	135	5,403	8,054	(5,593)	7,999
Selling expenses	—	22,814	31,867	(4,756)	49,925
Other expenses (income), net	—	627	1,254	—	1,881
Interest expense, net	4,425	3,514	(1,375)	—	6,564
Foreign exchange (loss) gain, net	(96)	(91)	(90)	—	(277)
Other financing (expense) income, net	—	—	(102)	—	(102)
Income taxes	(731)	1,455	4,536	—	5,260
Share of the profit of subsidiaries, associates and joint ventures accounted for using the equity method, net of taxes	17,833	14,732	105	(32,896)	(226)
Net income from continuing operations	Ps. 13,911	Ps. 18,460	Ps. 12,229	Ps. (32,896)	Ps. 11,704
Net income after tax from discontinued operations	Ps. —	Ps. —	Ps. 3,366	Ps. —	Ps. 3,366
Consolidated Net income	Ps. 13,911	Ps. 18,460	Ps. 15,595	Ps. (32,896)	Ps. 15,070
Attributable to:					
Equity holders of the parent- continuing	13,911	18,460	11,461	(32,896)	10,936
Equity holders of the parent- discountinued.	—	—	2,975	—	2,975
Non-controlling interest- continuing	—	—	768	—	768
Non-controlling interest discountinued	—	—	391	—	391
Consolidated Net income	Ps. 13,911	Ps. 18,460	Ps. 15,595	Ps. (32,896)	Ps. 15,070

	PARENT	COMBINED WHOLLY-OWNED GUARANTORS SUBSIDIARIES	COMBINED NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
	CONDENSED CONSOLIDATING INCOME STATEMENTS: FOR THE YEAR ENDED DECEMBER 31, 2017				
Total revenues	Ps. 1	Ps. 80,179	Ps. 126,031	Ps. (22,955)	Ps. 183,256
Cost of goods sold	–	40,870	71,402	(12,524)	99,748
Gross profit	1	39,309	54,629	(10,431)	83,508
Administrative expenses	140	5,598	7,003	(5,048)	7,693
Selling expenses	–	22,589	33,146	(5,384)	50,351
Other expenses (income), net	(314)	(330)	32,000	1	31,357
Interest expense, net	3,717	3,210	1,058	1	7,986
Foreign exchange (loss) gain, net	846	255	(313)	–	788
Other financing (expense) income, net	(104)	–	1,940	–	1,836
Income taxes	238	2,270	1,676	–	4,184
Share of the profit of subsidiaries, associates and joint ventures accounted for using the equity method, net of taxes	(9,765)	9,647	148	30	60
Net income from continuing operations	Ps. (12,803)	Ps. 15,874	Ps. (18,479)	Ps. 29	Ps. (15,379)
Net income after tax from discontinued operations	Ps. –	Ps. –	Ps. 3,725	Ps. –	Ps. 3,725
Consolidated Net income	Ps. (12,803)	Ps. 15,874	Ps. (14,754)	Ps. 29	Ps. (11,654)
Attributable to:					
Equity holders of the parent- continuing	(12,803)	15,874	(19,158)	29	(16,058)
Equity holders of the parent- discountinued.	–	–	3,256	–	3,256
Non-controlling interest- continuing	–	–	679	–	679
Non-controlling interest discountinued	–	–	469	–	469
Consolidated Net income	Ps. (12,803)	Ps. 15,874	Ps. (14,754)	Ps. 29	Ps. (11,654)

	PARENT	COMBINED WHOLLY-OWNED GUARANTORS SUBSIDIARIES	COMBINED NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
		CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2019			
Consolidated net income	Ps. 12,101	Ps. 17,689	Ps. 10,285	Ps. (27,445)	Ps. 12,630
Other comprehensive income, net of taxes:					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Valuation of the effective portion of derivative financial instruments, net of taxes	(819)	157	(330)	157	(835)
Exchange differences on translation of foreign operations	(5,013)	(10,391)	(5,578)	15,403	(5,579)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods:	(5,832)	(10,234)	(5,908)	15,560	(6,414)
Items not to be reclassified to profit or loss in subsequent periods:					
Loss from equity financial asset classified at FVOCI	(216)	—	(216)	216	(216)
Remeasurements of the net defined benefit liability, net of taxes	(511)	(64)	(899)	963	(511)
Net other comprehensive income not being reclassified to profit or loss in subsequent periods:	(727)	(64)	(1,115)	1,179	(727)
Total comprehensive (loss) income, net of tax	(6,559)	(10,298)	(7,023)	16,739	(7,141)
Consolidated comprehensive income for the year, net of tax	Ps. 5,542	Ps. 7,391	Ps. 3,262	Ps. (10,706)	Ps. 5,489
Attributable to:					
Equity holders of the parent- continuing	Ps. 5,542	Ps. 7,391	Ps. 3,314	Ps. (10,706)	Ps. 5,541
Non-controlling interest-continuing	—	—	(52)	—	(52)
Consolidated comprehensive income for the year, net of tax	Ps. 5,542	Ps. 7,391	Ps. 3,262	Ps. (10,706)	Ps. 5,489

	PARENT	COMBINED WHOLLY-OWNED GUARANTORS SUBSIDIARIES	COMBINED NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
		CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2018			
Consolidated net income	Ps. 13,911	Ps. 18,459	Ps. 15,596	Ps. (32,896)	Ps. 15,070
Other comprehensive income, net of taxes:					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Valuation of the effective portion of derivative financial instruments, net of taxes	(396)	(1,102)	2,142	(1,081)	(437)
Exchange differences on translation of foreign operations	(6,937)	23,618	(7,127)	(16,788)	(7,234)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods:	(7,333)	22,516	(4,985)	(17,869)	(7,671)
Items not to be reclassified to profit or loss in subsequent periods:					
Loss from equity financial asset classified at FVOCI	(1,039)	—	(1,039)	1,039	(1,039)
Remeasurements of the net defined benefit liability, net of taxes	223	(6)	101	(59)	259
Net other comprehensive income not being reclassified to profit or loss in subsequent periods:	(816)	(6)	(938)	980	(780)
Total comprehensive (loss) income, net of tax	(8,149)	22,510	(5,923)	(16,889)	(8,451)
Consolidated comprehensive income for the year, net of tax	Ps. 5,762	Ps. 40,969	Ps. 9,673	Ps. (49,785)	Ps. 6,619
Attributable to:					
Equity holders of the parent- continuing	Ps. 5,762	Ps. 40,969	Ps. 7,038	Ps. (49,785)	Ps. 3,984
Equity holders of the parent- discontinued	—	—	2,817	—	2,817
Non-controlling interest-continuing	—	—	(421)	—	(421)
Non-controlling interest- discontinued	—	—	239	—	239
Consolidated comprehensive income for the year, net of tax	Ps. 5,762	Ps. 40,969	Ps. 9,673	Ps. (49,785)	Ps. 6,619

	PARENT	COMBINED WHOLLY-OWNED GUARANTORS SUBSIDIARIES	COMBINED NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
	CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2017				
Consolidated net income (loss)	Ps. (12,803)	Ps. 15,874	Ps. (14,754)	Ps. 29	Ps. (11,654)
Other comprehensive income, net of taxes:					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Valuation of the effective portion of derivative financial instruments, net of taxes	(192)	(554)	(266)	746	(266)
Exchange differences on translation of foreign operations	16,345	5,245	15,293	(21,676)	15,207
Net other comprehensive income to be reclassified to profit or loss in subsequent periods:	16,053	4,691	15,027	(20,930)	14,941
Items not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of the net defined benefit liability, net of taxes	(10)	171	32	(165)	28
Net other comprehensive income not being reclassified to profit or loss in subsequent periods:	(10)	171	32	(165)	28
Total comprehensive (loss) income, net of tax	16,143	Ps. 4,862	Ps. 15,059	Ps. (21,095)	Ps. 14,969
Consolidated comprehensive income for the year, net of tax	Ps. 3,340	Ps. 20,736	Ps. 305	Ps. (21,066)	Ps. 3,315
Attributable to:					
Equity holders of the parent- continuing	Ps. 3,340	Ps. 20,736	Ps. (2,169)	Ps. (21,066)	Ps. 841
Equity holders of the parent- discontinued	—	—	2,500	—	2,500
Non-controlling interest-continuing	—	—	146	—	146
Non-controlling interest- discontinued	—	—	(172)	—	(172)
Consolidated comprehensive income for the year, net of tax	Ps. 3,340	Ps. 20,736	Ps. 305	Ps. (21,066)	Ps. 3,315

	PARENT	COMBINED WHOLLY-OWNED GUARANTORS SUBSIDIARIES	COMBINED NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
		CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31,2019			
Cash flows from operating activities:					
Income before income taxes for continuing op.	Ps. 10,995	Ps. 20,226	Ps. 14,502	Ps. (27,445)	Ps. 18,278
Non-cash items	(13,994)	(9,829)	12,276	27,445	15,898
Changes in working capital	(222)	(4,975)	2,310	–	(2,887)
Net cash flows (used in)/from operating activities	(3,221)	5,422	29,088	–	31,289
Investing activities:					
Interest received	2,957	2,460	5,446	(9,633)	1,230
Acquisition of long-lived assets, net	–	(4,218)	(5,776)	–	(9,994)
Acquisition of intangible assets and other investing activities	(3,693)	189	2,095	–	(1,409)
Investments in financial assets, net	(86)	(224)	(3,705)	3,443	(572)
Dividends received	15,052	868	1	(15,920)	1
Net cash flows used in investing activities	14,230	(925)	(1,939)	(22,110)	(10,744)
Financing activities:					
Proceeds from borrowings	9,400	Ps. –	1,336	–	10,736
Repayment of borrowings	(14,137)	–	(6,323)	–	(20,460)
Interest paid	(4,006)	(31)	(10,278)	9,633	(4,682)
Dividends paid	(7,437)	(12,261)	(3,662)	15,920	(7,440)
Interest paid on lease liabilities	–	(129)	(125)	125	(129)
Proceeds from issuing shares	–	(105)	(473)	86	(492)
Other financing activities	(1,016)	11,484	(7,141)	(3,654)	(327)
Net cash flows (used in)/from financing activities	(17,196)	(1,042)	(26,666)	22,110	(22,794)
Net (decrease) increase in cash and cash equivalents	(6,187)	3,455	483	–	(2,249)
Initial balance of cash and cash equivalents	16,529	1,026	6,172	–	23,727
Effects of exchange rate changes and inflation effects on the balance sheet of cash held in foreign currencies	(493)	(17)	(477)	–	(987)
Ending balance of cash and cash equivalents	Ps. 9,849	Ps. 4,464	Ps. 6,178	Ps. –	Ps. 20,491

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31,2018

	PARENT	COMBINED WHOLLY-OWNED GUARANTORS SUBSIDIARIES	COMBINED NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Cash flows from operating activities:					
Income before income taxes for continuing op.	Ps. 13,180	Ps. 19,914	Ps. 16,766	Ps. (32,896)	Ps.16,964
Non-cash items	(15,622)	(7,476)	8,957	32,896	18,755
Changes in working capital	(89)	(10,958)	2,909	–	(8,138)
Net cash flows (used in)/from operating activities	(2,531)	1,480	28,632	–	27,581
Income before income taxes for discontinuing operations	–	–	1,308	–	1,308
Operation activities for discontinuing operations	–	–	654	–	654
Investing activities:					
Acquisition and mergers, net of cash acquired	–	–	1,957	–	1,957
Interest received	2,994	2,187	4,513	(8,690)	1,004
Acquisition of long-lived assets, net	–	(3,506)	(6,012)	–	(9,518)
Acquisition of intangible assets and other investing activities	(10,153)	6,710	2,088	–	(1,355)
Investments in shares	(9,576)	(1,948)	(23,820)	34,957	(387)
Dividends received	4,816	–	8	(4,816)	8
Net cash flows used in investing activities	(11,919)	3,443	(21,266)	21,451	(8,291)
Net cash flows used from investing activities from discontinuing operations	–	–	(962)	–	(962)
Financing activities:					
Proceeds from borrowings	10,100	–	5,326	–	15,426
Repayment of borrowings	(9,028)	–	(6,929)	–	(15,957)
Interest paid	(4,189)	(5,487)	(3,998)	8,690	(4,984)
Dividends paid	(7,038)	(4,434)	(382)	4,816	(7,038)
Proceeds from issuing shares	–	–	–	–	–
Other financing activities	34,314	5,118	(6,157)	(34,957)	(1,682)
Net cash flows (used in)/from financing activities	24,159	(4,803)	(12,140)	(21,451)	(14,235)
Net cash flows used from financing activities from discontinuing operations	–	–	(37)	–	(37)
Net (decrease) increase in cash and cash equivalents	9,709	120	(4,774)	–	5,055
Net (decrease) increase in cash and cash equivalents for discontinued operations	–	–	963	–	963
Initial balance of cash and cash equivalents	7,017	926	10,824	–	18,767
Effects of exchange rate changes and inflation effects on the balance sheet of cash held in foreign currencies	(197)	(20)	(841)	–	(1,058)
Ending balance of cash and cash equivalents	Ps. 16,529	Ps. 1,026	Ps. 6,172	Ps. –	Ps. 23,727

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31,2017

	PARENT	COMBINED WHOLLY-OWNED GUARANTORS SUBSIDIARIES	COMBINED NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
Cash flows from operating activities:					
Income before income taxes for continuing op.	Ps. (12,565)	Ps. 18,144	Ps. (16,803)	Ps. 29	Ps.(11,195)
Non-cash items	10,474	(4,564)	39,495	(29)	45,376
Changes in working capital	118	1,803	(9,566)	–	(7,645)
Net cash flows (used in)/from operating activities for continuing operations	(1,973)	15,383	13,126	–	26,536
Income before taxes for discontinued operations	–	–	1,265	–	1,265
Operationactivities for discontinued operations	–	–	5,435	–	5,435
Investing activities:					
Acquisition and mergers, net of cash acquired	–	–	26	–	26
Deconsolidation of Venezuela	–	–	(170)	–	(170)
Interest received	4,753	1,693	1,471	(7,126)	791
Acquisition of long-lived assets, net	–	(2,646)	(6,746)	–	(9,392)
Acquisition of intangible assets and other investing activities	4,901	(995)	(7,461)	–	(3,555)
Investments in shares	(100)	(405)	305	(1,243)	(1,443)
Dividends received	3,187	–	33	(3,187)	33
Net cash flows (used in)/from investing activities for continuing operations	12,741	(2,353)	(12,542)	(11,556)	(13,710)
Net cash flows (used in)/from investing activities for discontinued operations	–	–	2,820	–	2,820
Financing activities:					
Proceeds from borrowings	10,200	–	2,288	–	12,488
Repayment of borrowings	(9,926)	–	(3,183)	–	(13,109)
Interest paid	(5,169)	(4,740)	(1,775)	7,126	(4,558)
Dividends paid	(6,991)	(3,187)	(1)	3,187	(6,992)
Other financing activities	2,730	(5,293)	(881)	1,243	(2,201)
Proceeds from issuing shares	4,082	–	–	–	4,082
Net cash flows (used in)/from financing activities in continuing operations	(5,074)	(13,220)	(3,552)	11,556	(10,290)
Net cash flows (used in)/from financing activities	–	–	(485)	–	(485)
Net (decrease) increase in cash and cash equivalents	5,694	(190)	(2,968)	–	2,536
Net (decrease) increase in cash and cash equivalents for discontinued operations	–	–	9,035	–	9,035
Initial balance of cash and cash equivalents	1,106	1,119	8,251	–	10,476
Effects of exchange rate changes and inflation effects on the balance sheet of cash held in foreign currencies	217	(3)	(3,494)	–	(3,280)
Ending balance of cash and cash equivalents	Ps. 7,017	Ps. 926	Ps. 10,824	Ps. –	Ps. 18,767

NOTE 30. SUBSEQUENT EVENTS

On February 7, 2020, we issued (i) Ps.3,000 million aggregate amount of 8-year fixed rate certificados bursátiles bearing an annual interest rate of 7.35% and due January 2028, and (ii) Ps.1,727 million aggregate amount of 5.5-year floating rate certificados bursátiles, priced at 28-day Tasa de Interés Interbancaria de Equilibrio (Equilibrium Interbank Interest Rate, or TIIE) plus 0.08% and due August 2025.

On January 22, 2020, we issued US1,250 million aggregate principal amount of 2.750% senior notes due January 22, 2030. These notes were used to prepaid Senior Note of $ 500 with an interest rate of 3.88% with due date on November 26, 2023. These notes are guaranteed by the Guarantors (as defined in Note 29). The indenture governing these notes imposes, among others, certain conditions upon a consolidation or merger by us and restricts the incurrence of liens and the entering into sale and leaseback transactions by us and our significant subsidiaries